I. Introduction and Position Summary

The Consumer Coalition represents industrial, institutional, commercial, and residential end-use consumers throughout the PJM footprint. These consumers will both suffer the consequences if resource adequacy is not achieved and pay the cost of programs aimed at securing our resource adequacy.

With the poor performance of many generating units during Winter 2014, cost effectively improving winter resource performance is important for maintaining reliability during cold weather events and ensuring customers receive the benefits of their capacity payments. However, PJM’s Capacity Performance ("CP") Updated Proposal, issued on October 7, 2014, is a far-reaching overhaul of the PJM capacity construct that is far too costly and not justified in its current form.

It is true that the 2014 Polar Vortex resulted in very extreme weather conditions. But, these conditions had not been experienced for many years, and there is no evidence that they will recur with more than a one-day-in-ten-year frequency. That being said, the Consumer Coalition agrees that some changes to the Reliability Pricing Model ("RPM") may be warranted and commends PJM for the many initiatives it has undertaken since Spring to improve winter preparedness and generator availability. The Consumer Coalition believes that the various initiatives already underway, in addition to the strong incentives for improved availability created by the very high energy prices last winter, will have a substantial impact on future resource performance and winter resource adequacy.

The Consumer Coalition believes the abrupt overhaul contemplated by the CP Updated Proposal, as currently constructed, will adversely affect consumers by sharply increasing the cost of capacity with questionable additional reliability benefits and further restricting demand-side participation. PJM Staff has failed to show that such drastic changes are warranted or, if warranted, that these changes are the correct changes. Adding to the Consumer Coalition's concerns is the extremely short timeframe that has greatly limited the opportunity for stakeholder review.

Although the Consumer Coalition considers PJM’s CP proposal to be excessive, our comments will discuss the merits of, and possible solutions to, PJM’s concerns regarding Winter 2015/2016 as expressed in PJM’s proposal. PJM has undertaken considerable efforts to address the resource performance problems that became evident during Winter 2014, and we recommend that the PJM Board direct a more measured approach to any necessary RPM reforms based on these efforts. To that end, the Consumer Coalition recommends that:

- The Board direct PJM Staff to develop an interim and more focused proposal to further address any perceived reliability concerns during the 2015/2016 and 2016/2017 Delivery Years that are not adequately addressed by prior RPM auctions and the various initiatives currently underway.

- The Board direct PJM Staff to initiate a stakeholder process to more thoroughly evaluate the need for a comprehensive restructuring of RPM. Any FERC filing should depend on the outcome of that process.

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1 Coalition Members are listed at the end of this Brief.
2 Members of the Consumer Coalition have serious reservations about the Board directing PJM to file, as an alternative to CP, revisions based on New England's Pay-For-Performance Construct. New England's infrastructure and market design differ significantly from PJM's, and the New England Construct would not cleanly fit into PJM's markets.
3 While the Consumer Coalition does not believe the CP proposal should be adopted for all the reasons we set forth in this paper, if the Board is inclined to proceed we agree with the concerns expressed by the Transition coalition regarding the transition.
II. The Consumer Coalition Supports Cost-Effective, Tailored Measures To Address Remaining Near-Term Concerns About Winter Resource Adequacy.

The commendable steps that PJM is taking are already reducing future perceived winter reliability concerns. The Consumer Coalition supports further stakeholder discussion to develop reasonable, incremental approaches that PJM can and should take to address its perceived concerns. While PJM's primary reliability concern revolves around the winter of the 2015/2016 Delivery Year ("DY"), the thrust of its Updated Proposal does not affect this DY but actually seeks an overhaul of RPM for 2018/2019 and beyond. This highlights a disconnect between PJM's perceived concern and its far-reaching proposed solution.

The Consumer Coalition supports adoption of less disruptive reliability solutions that are supported by robust analysis, accountability for results, protection from market power exercise, and stakeholder input. For example, strategies described in PJM's proposed CP transition mechanism, such as procuring any necessary additional capacity for winter 2015/2016, possibly through the existing incremental auction mechanism, may offer a more precise, cost-effective solution to perceived reliability concerns. Enhancing the penalty structure for generators, akin to those that exist for demand response ("DR"), should also be considered under the current RPM construct. The Consumer Coalition also supports measures to establish clearer incentives for fuel firmness. These efforts, coupled with the myriad of other market and operating changes already completed or underway, should be reviewed and evaluated before taking more extreme measures.

III. PJM's Commendable Efforts Currently Underway To Address Winter Reliability Must Be Implemented and Evaluated Before a CP Proposal Is Finalized.

By all accounts, the events of January 7, 2014 were anomalous and not indicative of a "new normal." Temperatures throughout the PJM footprint were extreme. The extreme weather was much more pervasive than just the PJM footprint and impacted the majority of North America. The peak load on this date was 141,745 MW, above the forecast "90/10" extreme winter peak level of 139,099 MW. As such, the January 7 peak was at approximately the 96th percentile, or a once-in-24-year winter peak. PJM needed all available capacity, but, despite many resources receiving a capacity revenue stream, many generators failed to run due to various problems or economic choices, and energy prices spiked. Generators that were unable to perform failed to capture revenue during the unprecedented high energy prices occurring throughout January 2014 and now have economic incentive to invest and adopt operational changes to enhance weatherization and fuel security.

The Consumer Coalition commends PJM for its current efforts to address future winter reliability concerns. Instead of implementing a broad and hastily designed overhaul of its capacity construct, PJM should continue its efforts to more precisely and explicitly address performance and reliability concerns, including:

- Requiring performance verification or testing of certain resources during cold weather, including testing dual-fuel capability (effective date: Winter 2014/15);
- Facilitating improved electric-gas market coordination (effective date: 2014/15);

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4 PJM Enhanced Liaison Committee Updated Whitepaper, Frequently Asked Questions #68.
5 PJM 2014 Load Forecast Report, Table D-2.
6 Based on the forecast 50/50 and 90/10 winter peak load levels, and employing the assumption, commonly used by PJM, that such peak loads are approximately normally distributed around the median value.
7 It is worth noting that PJM has not determined which resource owners that missed out on the high prices last winter have elected not to take corrective actions and which have responded to the market's clear message and taken steps to improve their winter performance. Whitepaper Frequently Asked Questions #74.
8 The dated items on this list are taken from PJM Member's Committee Meeting, Item 02: Hot and Cold Weather Recommendations Update (Sept. 15, 2014). http://www.pjm.com/committees-and-groups/committees/mc.aspx.
• Analyzing potential enhancements to energy and reserve pricing to better capture conservative operator actions in market clearing prices (effective date: Winter 2014/15);
• Clarifying and increasing penalties for non-performance;
• Continuing to rely on the demonstrated flexibility of DR;
• Analyzing potential methods to reduce and mitigate energy market uplift (effective date: April 2015);
• Working with generation owners to create or improve information sharing, such as information about fuel and emission limitations and outage types (effective date: 2014/15);
• Reviewing transmission owners' voltage reduction capabilities to better understand current capabilities and need for improvements (effective date: Winter 2014);
• Improving internal and external communication during operational emergencies (effective date: Winter 2014/15);
• Reviewing inflexible market rules that may have contributed to cost and availability problems, such as restrictions on changing offer prices and minimum load costs;
• Assessing the adequacy and future development of natural gas infrastructure within PJM;
• Reexamining the performance of the regulation market based on results of January 2014;
• Exploring possible procurement of resources through existing mechanisms, such as incremental auctions, to address any remaining near-term adequacy issues;
• Encouraging alternative energy; and,
• Resolving seam-related issues among the neighboring markets for efficient power transactions.

IV. The PJM Board Should Be Mindful of Uncertainty and Rate of Change Regarding Potential Capacity Market Changes.

Over the past few weeks, stakeholders have struggled to digest PJM's Updated Proposal, which differs significantly from the original proposal. The substantial changes between PJM's original proposal and PJM's Updated Proposal underscore the challenge that lies ahead in evaluating the need for any comprehensive RPM restructuring. Important details of the Updated Proposal remain unknown, and critical aspects of the proposal continue to evolve. Given the experiences of Winter 2014, we welcome the Board's commitment to decisive action to address generator non-performance and support increased penalties. In view of other market dynamics, however, the CP initiative is like a tidal wave hitting a sea change. This contemplated foundational shift in RPM is occurring at the same time as several other foundational shifts, namely PJM's recent Triennial Review filing and ongoing litigation of the D.C. Circuit Court opinion in Electric Power Supply Association v. FERC ("EPSA") and FirstEnergy's Complaint that the Federal Energy Regulatory Commission ("FERC" or "Commission") require PJM to remove DR from its capacity market construct.

The EPSA decision and the FirstEnergy Complaint create uncertainty surrounding the future of DR in PJM's markets. The tremendous market support and potential growth for DR is demonstrated by the fact that nearly 15,000 MW of DR cleared in the Base Residual Auction ("BRA") for the 2015/2016 DY and nearly 11,000 MW cleared in the recent May 2014 BRA. With such robust DR participation, market volatility and reliability risks are likely if DR is eliminated or restricted in its participation in PJM. It is premature, if not irresponsible, to impose such a broad overhaul of PJM's capacity construct without first knowing and accounting for these impacts on cost and reliability.

Moreover, PJM's recent Triennial Review, which proposes to fundamentally change the Variable Resource Requirement ("VRR") curve shape, is currently pending before FERC. The Commission's resolution of PJM's Triennial Review filing will provide useful certainty on key reliability inputs being considered in the CP process, which will likely increase capacity quantities and clearing prices in the May 2015 BRA. This will

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provide an additional margin of reliability. In light of these fundamental changes to PJM's markets that have not yet taken shape and whose impacts cannot be foreseen, the CP proposal is premature and has great potential for unintended interactions and consequences.

V. The Updated Proposal Has Not Been Shown To Be "Just and Reasonable" Nor Have the Benefits to Consumers Been Shown To Outweigh the Costs.

The Consumer Coalition has serious reservations about proposing radical changes to RPM without understanding the impacts of existing initiatives. Stakeholders have had just three weeks to evaluate the Updated Proposal and understand its ramifications related to, at a minimum, generator market entry and exit, energy market performance, generator bidding strategies, and opportunities to exercise market power, particularly given the changes contemplated for DR participation. Given the stakes for all market segments—supply and demand alike—any comprehensive RPM reform must be undertaken in a thoughtful and deliberative fashion, with time for more thorough stakeholder consideration and opportunity for analysis.

The Consumer Coalition notes that PJM and Monitoring Analytics have offered a report purporting to quantify the costs and benefits of the Updated Proposal.10 The report projects the CP Updated Proposal will increase capacity costs by a total of $5.8 to $8.4 billion for just the upcoming three DYs, and by an average of about a half billion dollars per year over the long run.11 Against this increased cost, the report provides no quantification of the short- and long-term reliability benefits. Instead, the report suggests that the sharp increases in capacity costs would be offset by energy market savings.

A complete understanding of how these energy market saving estimates were derived is crucial to the Board's and stakeholders' assessment of the Updated Proposal. Such understanding of impacts is not possible given such limited information.12 More details on the analysis and input assumptions are required before the Board and stakeholders understand the impact of CP itself, especially when considering the impact of other PJM initiatives that may be less costly but still provide cost-effective reliability improvements. Consequently, it is not evident that the CP proposal would be the driver for improvements in generator performance.

For these reasons, the Consumer Coalition is concerned that the CP initiative requires additional work in order for it to be deemed to "provide enhanced reliability at the lowest feasible cost."13 Nevertheless, if the Board is inclined to proceed with the CP proposal in some form at this time, the Consumer Coalition offers the following comments.

A. The Updated Proposal Sets High Purchase Requirements for a Demanding New Capacity Product, Leading to Opportunities To Exercise Market Power That Cannot Effectively Be Mitigated.

The proposed CP product sets a high standard for resource availability during Summer and Winter Alerts, backed by substantial penalties.14 In offering to provide the CP product, the seller would also implicitly

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11 Industrial consumption is still recovering and well below the 2008 peak. Significant cost impacts that would erode consumption further have negative effect on generator profitability and system reliability.
12 For example, although the Market Monitor analysis assumes either a 3% or 6% improvement in generator outage rates, it is not known to what extent generators have already improved their outage rates due to last winter's "wake-up call" and the many initiatives underway to improve and generation performance.
14 The Consumer Coalition seeks to ensure that the capacity for which it is supporting through RPM revenue streams is available during times of system stress and is concerned about any further dilution of the penalty structure as seen from the original proposal to the Updated Proposal.
make various representations that could potentially lead to FERC enforcement actions. Under this framework, many existing resources would need substantial investments to meet the requirements to be CP. In addition, all resources, especially older resources whose performance may be somewhat uncertain, will face a product definition that imposes new and potentially costly risks related to performance.

As noted above, PJM proposes to acquire 80% of necessary capacity for the 2018/2019 DY in the form of the CP product with the remaining 20% being satisfied with the Base Capacity ("BC") product. Resources offering to provide the CP product will have to be allowed the opportunity to recover the associated costs. Such costs will reasonably include any necessary up-front investments, ongoing costs such as for firm fuel supply, and a quantification of the risks of providing the CP product through a "risk premium" included in RPM offers.

Stakeholders and PJM recognize that the current capacity construct is susceptible to exercise of market power, and this market power is mitigated with must-offer requirements, offer caps, and, ultimately the possibility of review of conduct and referral to FERC. If too few resources are able to provide the rigorous CP product except at high prices, those offers will set the RPM clearing price for CP. A large fraction of generation in PJM is held in large portfolios, and these generators have a clear incentive to offer less CP and more BC in order to sharply raise the CP clearing price. Unfortunately, traditional mitigation tools, even if fully applied to the CP construct (which PJM does not propose), will not be effective in mitigating market power under the proposed new design. Even with the proposed "must offer" requirement, PJM has not provided any method of foreclosing the opportunity for generators to manipulate the market for their own gain at the expense of consumers. At a minimum, in order to ensure just and reasonable rates, free from market power exercise, robust analysis must be undertaken to review how generators, particularly those with large fleets of assets, might behave to unjustly increase consumers' prices.

1. **Must-Offer Requirement**

PJM proposes to mitigate withholding by requiring all CP-eligible resources to offer into the BRA as CP. Under the current construct, a must-offer requirement may be sufficient with a single generation product, in conjunction with Independent Market Monitor ("IMM") oversight, to control withholding. However, the CP proposal introduces another avenue for withholding that appears to be impossible to mitigate. The Consumer Coalition understands the Updated Proposal's intent to require CP-eligible resources to offer into RPM as the CP product as a means to prevent portfolio owners from offering these resources only as BC, which would reduce the total offered quantity of CP and thus increase the clearing price. Unfortunately, another avenue to withholding that exists under the Updated Proposal would be for resource owners to decline to upgrade units to make them CP-eligible. If this occurs, the proposed construct would permit the quantity of CP resources to be limited, and the price intentionally increased. The Updated Proposal includes no measure to eliminate this withholding opportunity. In fact, it is difficult to imagine a requirement that would prevent this possibility under PJM's current CP package, which is a critical flaw in the proposal.

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16 The intent is to prevent artificial shortages of the CP product that would reduce the balance of supply and demand thus raising prices inappropriately.
2. **Offer Cap**

PJM and the IMM assert that PJM's capacity market should clear "in equilibrium" at or near the administrative estimate of the Net Cost of New Entry ("Net CONE"). The Consumer Coalition is concerned the Updated Proposal's offer cap would become a self-fulfilling prophecy, allowing capacity clearing prices to rise to that Net CONE level by only mitigating seller offers at Net CONE. This would seem to negate necessary RPM bidding discipline. This stands in stark contrast to current offer cap procedures based on unit-specific going-forward or Avoidable Costs.

The current offer cap for existing generation reflects the fact that ownership of generating resources in PJM is highly concentrated. In fact, the IMM has found it necessary each year since the inception of RPM to mitigate offers from existing resources in order to deter the exercise of market power and ensure RPM clearing prices are not excessive and unreasonable. The direct result of a Net CONE cap, however, would be to permit resource owners to offer well above their actual costs. If the market were fully competitive, it would operate to force offers toward cost. Unfortunately, the IMM has determined that RTO and zonal capacity markets are not structurally competitive without mitigation. Thus, capacity prices under the Updated Proposal cannot be assumed to be reasonable and must be effectively mitigated, as they are under the current capacity construct. It cannot be presumed that PJM's proposal would not result in offers at the proposed offer cap of Net CONE regardless of a unit's actual cost, when so much PJM generating capacity is held in large portfolios. If CP had been in place for the 2017/2018 BRA and prices were allowed to clear at Net CONE, consumer capacity costs would have more than doubled.

Moreover, PJM's objective of having prices clear at Net CONE is inconsistent with actual market dynamics. Prices should clear at Net CONE when new entry is required. Since its inception, RPM has always cleared substantially more resources – on the order of 4 to 5 percentage points more - than the level required to achieve PJM's reliability target of IRM plus 1%. Thus, the current clearing prices below Net CONE simply reflect fundamental economic principles: prices decline in the face of excess supply. For consumers to pay prices at or near administrative Net CONE for resources that could be reasonably priced well below the offer cap is clearly not "just and reasonable."

Absent change, a by-product of the Updated Proposal is that the administrative determination of Net CONE in the Quadrennial Review process in conjunction with the operation of the demand curve would likely effectively establish the RPM clearing price. Accordingly, if a Net CONE estimate is used in any mitigation scheme, empirical Net CONE (i.e., an average of the last three clearing results), rather than administrative Net CONE, should be used. Evidence from recent RPM auctions is that new gas-fired combined cycle units are economic and will enter the PJM market at prices far below administrative Net CONE.

Even assuming current, avoidable-cost-based mitigation is extended to the CP product – that is, a must-offer CP requirement for all potentially eligible resources and offer caps at a level reflecting the resource-specific avoidable cost and risk to provide CP – Consumer Coalition concerns about market power exercise would not be allayed. Both PJM and the Market Monitor would be handicapped in verifying the actual resource-specific costs and risks associated with qualifying as a CP product. In addition to requiring a time- and fact-intensive review, such an analysis would incorporate costs subjectively determined by generation owners that could not be adequately evaluated. Such costs would include the risk of poor performance during extreme heat or cold,

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18 Assumes the 2017/18 BRA RTO clearing price of $120/MW-day rises to Net CONE of $331/MW-day.

cost to implement upgrades to improve performance, and various other resource-specific costs and risks that an owner might claim.

Consequently, even applying the best-available tools, such as must offer requirement, cost-based offer caps, and market monitor review, the confluence of the multiple resource-specific costs and risks associated with CP, and the large quantity PJM proposes to purchase of CP, creates a situation where it is very likely that generation owners, especially those with large portfolios and the strongest incentives to raise RPM prices, will be able to exercise market power and cause unjust and unreasonable rates.

B. PJM's Analysis To Determine the Required Quantity of the CP Product Is Overly Conservative and Results in an Excessive Requirement.

PJM proposes to determine the maximum quantity of the BC product that it will clear in RPM BRAs (and the minimum quantity of the CP Product it will attempt to acquire) using a new reliability study. The methodology is based upon the PRISM model PJM has used for many years for planning purposes, which employs various conservative assumptions that increase the identified requirements.

Of particular relevance, the most unrealistic assumption that PJM proposes to adopt for the purpose of this study relates to the availability of BC generation and DR:

"The Base Capacity products were modeled based on their availability requirements:

• Base Capacity DR and EE were assumed to be available from June 1 – September 30 and unavailable from October 1 through the following May 31.

• Base Capacity generation was assumed to be fully available in all weeks of the year except the winter peak week. In the winter peak week, Base Capacity generation was assumed to be available up to the 90th percentile winter peak load. For the 90/10 winter peak load and above, Base Capacity generation was assumed to be unavailable."22

PJM's unduly conservative assumption that BC resources will be completely unavailable when most needed during extreme cold events leads to PJM's overly restrictive recommendation to cap BC resources at 20% of total capacity. Resources will end up providing Base Product instead of CP for a variety of potential reasons having to do with the costs and risks of providing CP. While perhaps some resources may be unavailable when winter peaks rise above the 90/10 level, others may not be affected by the extreme cold, and may have cleared as BC for reasons other than anticipated unavailability under winter peak conditions. A more realistic but still highly conservative assumption would be that BC generation and DR is only 50% available during winter peak conditions. That assumption would likely reduce the CP product requirement from 80% to approximately 68%,23 substantially reducing the cost to consumers and susceptibility to market power exercise. Accordingly, more work must be undertaken on the determinants by which PJM would establish the BC cap.

20 While detailed documentation of the study methodology is not available, a brief description is provided in Section IV of PJM's CP Updated Proposal. Whitepaper Frequently Asked Questions #59.
21 As one example, assistance from neighboring RTO and non-RTO regions is limited for modeling purposes to 3,500 MW, which is far below the existing transfer capacity. Given that PJM is connected to multiple and diverse neighboring regions, this unrealistic assumption limits the amount of assumed assistance that would be available from neighboring regions when PJM is under stress conditions.
22 PJM's Updated CP Proposal, p. 19 (emphasis added).
23 With 68% CP there would be roughly 100% – 8% – 68% = 24% generation BC. If 50% of the generation BC is available on winter peak, that would be 68% + 50% x 24% = 80%, roughly equivalent to PJM's assumption of 80% CP and no BC.
VI. **If the CP Proposal Is Filed, the Board Should Maintain Cost-Saving Measures that Support Reliability.**

A. **Any Changes to PJM's Capacity Construct Must Provide Reasonable Opportunities To Recognize DR.**

The Consumer Coalition agrees with PJM that "there is, in fact, well-developed peak load reduction capability in the PJM Region, and PJM reasonably and prudently must take that capability into account in both its planning and capacity procurement functions." While appreciating PJM's ongoing efforts to ensure DR continues to have ample opportunity to contribute to reliability objectives, we offer the following comments on PJM's Updated Proposal.

As a threshold matter, the Consumer Coalition position is that the EPSA decision does not require PJM to eliminate compensation for Limited DR, Extended Summer DR, or Annual DR, nor does it require elimination of capacity-related DR provisions from the PJM Tariff. Moreover, the Consumer Coalition does not interpret the EPSA decision as foreclosing competition among the entities that may serve as an intermediary between retail customers and PJM, namely, limiting that participation to load-serving entities ("LSEs"). Electric distribution companies ("EDCs") and curtailment service providers ("CSPs") should have opportunities comparable to those available to LSEs to clear DR and coordinate with customers.

The Consumer Coalition believes the Updated Proposal, without modification, unjustly discourages DR participation by setting parameters that essentially bar the majority of resources from qualifying as CP. Restricting DR resources so they clear as BC means their capacity market hedge will be greatly reduced as compared with CP resources and overlooks their ability to provide year-round reliability and cost-savings benefits, including during extreme cold.

At the October 15 CP stakeholder meeting, PJM Staff indicated an interest in evolving the DR offerings to more closely resemble "peak shaving." This is a very positive development. The Consumer Coalition urges PJM either to clarify the CP Proposal, or adopt as changes to the CP Proposal, the following performance obligations for DR to realize a "peak shaving" objective:

- A DR customer may establish a defined amount of capacity that it requires and wants PJM to procure on its behalf, regardless of changes to its Peak Load Contribution ("PLC") obligation (i.e., a firm capacity amount). Performance shall be assessed relative to a customer's actual consumption during an event.
- DR that clears as a BC resource must curtail, upon PJM notification of no less than 2 hours, during circumstances in which PJM is loading Maximum Emergency Generation during the period June 1 to [2014].

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25 The PJM Consumer Representatives filed with the Commission, on October 22, 2014, a Protest to the FirstEnergy Complaint and Amended Complaint in FERC Docket No. EL14-55-000, which explains, in detail, the basis for the Coalition's view regarding the EPSA decision.

26 Approximately 25% of PJM's registered DR responded voluntarily in January 2014, delivering maximum hourly load reductions of 2,379 MW and 1,179 MW on January 7th and 8th respectively. IMM calculated that the 2017/18 Base Residual Auction RTO clearing price would have increased 135% without energy efficiency/DR resources (from $120 to $282.16/ MW-day).

27 It is imperative that PJM maintain rules that enable customers to self-curtail consumption during the relevant peak hours (i.e., engage in peak-shaving on their own) and avoid incurring capacity obligations. Many customers in PJM, particularly large industrial customers, have made capital and operational investments in technology and practices that enable those customers to reasonably predict the likelihood of peak-load hours and undertake measures to safely and reliably curtail consumption during those periods. These investments and changes in practices have provided, and continue to provide, peak load management value to the system and to consumers.
September 30, with such curtailments not exceeding 12 hours in any one day and not occurring in more than 3 consecutive days.

- DR that clears as a CP resource must curtail, upon PJM notification of no less than 2 hours, during circumstances in which PJM is loading Maximum Emergency Generation at any time of the year, with such curtailments not exceeding 10 hours in any one day and not occurring in more than 3 consecutive days.
- Any DR commitment must be transferable from intermediary to intermediary (e.g., LSE, EDC, or CSP) prior to, and during, the Delivery Year for which the DR megawatts cleared. The transferability of the DR credits is necessary to accommodate shifts by individual customer in their supply contracts.
- The penalties for DR that do not perform upon PJM notification consistent with the requirements above would be subject to the CP penalties that apply to generators if the DR clears as CP, and would be subject to the BC penalties that apply to generators if the demand clears as BC.
- The Consumer Coalition appreciates and supports PJM's initiative to create a "dynamic demand curve" that reflects cleared DR by shifting the VRR Curve to the left equal to the amount of DR that clears.28

B. Any Changes to PJM's Capacity Construct Must Recognize Load Forecasting Concerns Utilized in the Current Approach.

The Consumer Coalition recognizes that the 2.5% Holdback ("Holdback") plays a vital role in establishing "just and reasonable" rates. While initially intended to offset the loss of Interruptible Load for Reliability ("ILR") resources, the Holdback in recent years has been effective at providing partial mitigation of PJM load over-forecasting in the BRA process. Load forecast error inflates the amount of capacity committed in the BRA when compared with the actual load measured right before the Delivery Year. The Consumer Coalition appreciates PJM's historic support for the Holdback as a proxy for inherent load-forecasting error. As such, the Coalition was surprised and disappointed to find the elimination in the Updated Proposal. In the interest of being constructive, set forth below for the Board's consideration is background on the RPM load over-forecasting problem and a recommendation that PJM incorporate a reconciliation adjustment mechanism to enable RPM to recognize the load forecasting error if the Updated Proposal moves forward.

Since the advent of the Holdback with the BRA for the 2012/2013 Delivery Year, PJM's three-year forward load forecasts used to determine the amount of capacity procured in the BRAs have been, on average, in excess of 6% above the load forecast in place at the start of the actual Delivery Year. This level of over-forecasting would suggest that, whether due to the three-year forward nature of RPM, fundamental changes in energy consumption, or otherwise, there is, in fact, a significant upward bias in the PJM load forecast on a three-year forward basis. The implied consumer cost due to the load over-forecast from the 2007/2008 Delivery Year to the 2015/2016 Delivery Year is nearly $25 billion.29

Although PJM has dedicated serious efforts to improving its load forecast, a significant gap continues to exist at the time of the BRA and the load forecast developed at the start of the Delivery Year.30 In fact, we

28 The Consumer Coalition endorses PJM's initiative to provide an additional option for recognizing interruptible load as an offset to capacity obligations and as an offset to the Reliability Requirement. The Consumer Coalition urges PJM to continue pursuing these options even if the remainder of the Updated Proposal does not move forward.
29 The calculations behind the Implied Consumer Costs suggest some range around the exact cost and relied on interpolation of multiple sensitivity analyses that either PJM or the IMM performed. Not every Delivery Year reflects a full 3-year difference in load forecasts from BRA to Delivery Year due to ramping up of RPM during the first few years and BRAs that occurred within the last two years. The load forecasts have been adjusted to reflect PJM integrations/expansions that may not have been included in some BRAs.
30 The error can be attributable, in part, to fundamental changes in energy usage since the most recent recession not being captured by the metrics utilized by PJM. A recent study by the Brattle Group indicates that PJM's load forecast, unlike New York ISO's and ISO New England's, does not account for existing and planned energy efficiency programs. Brattle's analysis found significant reductions in total customer costs if energy efficiency projects were factored into PJM's load forecast.
would expect that, if PJM's CP proposal were to move forward as proposed, and capacity costs hover around Net CONE as the Consumer Coalition fears, customers will have further incentive to invest in energy efficiency or otherwise not use energy during peak periods.

To that end, if the Holdback is to be eliminated, the Consumer Coalition recommends that PJM include a mechanism that automatically adjusts the reliability requirement commensurate with the load forecast error. Similar to the Net Energy & Ancillary Services Offset concept, the reconciliation mechanism would automatically adjust the reliability requirement in the BRA commensurate with the three-year rolling average forecast error between load forecast at the time of the BRA as compared to the load forecast in the December preceding the Delivery Year. This approach recognizes that, as PJM's load forecasting metrics adjust to our changing energy landscape, the adjustment would reduce over time. The Consumer Coalition views this reconciliation mechanism as a vital component of ensuring that PJM's RPM market produces "just and reasonable rates."

VI. Conclusion

For the reasons discussed above, the Consumer Coalition respectfully urges the PJM Board to:

- Require implementation, and then evaluation, of the various pending non-CP initiatives to improve coordination of generation resources and to minimize generation outages;
- Continue to recognize the need for, and provide opportunities for, DR to assist in meeting reliability objectives;
- Evaluate the need for and, if necessary, adopt targeted and limited changes to address any near-term (2015/2016 and 2016/2017) reliability concerns, with a clear identification of the reliability benefits and associated costs; and,
- Initiate a longer-term (6 months or more) stakeholder process to evaluate whether any longer-term, more comprehensive changes to RPM are necessary.

Respectfully submitted,

| The Delaware Division of the Public Advocate | The Delaware Public Service Commission |
| Office of the People’s Counsel for the District of Columbia | Illinois Citizens Utility Board |
| Indiana Office of the Utility Consumer Counselor | Office of Rate Intervention, Attorney General of Kentucky |
| Maryland Office of People’s Counsel | New Jersey Division of Rate Counsel |
| Office of the Ohio Consumers’ Counsel | Pennsylvania Office of Consumer Advocate |
| | The Consumer Advocate Division of West Virginia |