COMMENTS OF THE COALITION OF PJM LOAD SERVING ENTITIES

Introduction

The Coalition of Load Serving Entities wants to express its concerns to the PJM Board regarding the proposed Capacity Performance Product proposal put forth by the PJM staff, and the lack of time allowed for the stakeholder process to address the merits and implications of what is clearly a very important matter to all PJM members. The Coalition recognizes the PJM Board’s initiative to focus PJM staff and the stakeholders on assuring we are prepared for this winter and beyond. Since PJM issued its draft problem statement on August 1st, PJM staff and the PJM stakeholders have been engaged in intense and focused evaluation of the drivers of poor resource performance in January of this year and the state of the current resource adequacy construct. In the short three month period leading up to the November 4, 2014 Enhanced Liaison Committee, we have a few important lessons learned and still many unanswered questions as well as a good deal of work required.

Relative to our lessons learned, we know that the issues from January 2014 were operational performance related and not resource adequacy construct issues. Thanks to detailed assessments by PJM staff, we know the drivers of poor performance were four-fold: 1) gas fuel deliverability limits on extreme winter days when resources were not committed day ahead or were curtailed due to constraints within a local gas distribution company; 1) unit design constraints that prohibited operation below certain threshold temperatures; 3) freezing coal piles and; 4) boiler issues. 2 Addressing these four issues will restore confidence in the initial assumptions underlying resource adequacy and development of the probability-based Installed Reserve Margin, taking into account unit performance based on temperature.

Over the course of 2014, we have made good progress on addressing three of the four drivers.3 That progress was made because these three drivers, for all practical purposes, can effectively be addressed through the PJM energy markets and operating requirements. As listed below, proposed changes are already under development and will be in place in time for the upcoming 2014/15 Winter period. The Coalition believes these changes represent significant improvement to the current RPM and energy market rules as well as enhanced information sharing between resource owners and PJM.

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1 See [http://www.pjm.com/~/media/committees-groups/committees/elc/20140911/20140911-item-03-capacity-performance-presentation.ashx](http://www.pjm.com/~/media/committees-groups/committees/elc/20140911/20140911-item-03-capacity-performance-presentation.ashx) slide 4 - noting of the 9,848 MW lack of fuel outages (1/7/14 hour ending 19); 8,503 MW were not committed day ahead, or 86%.

2 See: [http://www.pjm.com/~/media/committees-groups/committees/oc/20140818/20140818-item-02-cold-weather-resource-improvement-education.ashx](http://www.pjm.com/~/media/committees-groups/committees/oc/20140818/20140818-item-02-cold-weather-resource-improvement-education.ashx) slides 14-15 - noting that “boiler issues” represented, respectively, 19% of single fuel and 29% of dual fuel forced outage causes from hours 18:00 to 19:00 on January 7, 2014 (last accessed September 14, 2014).

3 Such as efforts to address cold weather resource improvement (checklist/exercise) and gas unit commitment coordination, along with other recommendations. [http://www.pjm.com/~/media/committees-groups/committees/mc/20141027-webinar/20141027-item-02-hot-and-cold-weather-recommendation-update.ashx](http://www.pjm.com/~/media/committees-groups/committees/mc/20141027-webinar/20141027-item-02-hot-and-cold-weather-recommendation-update.ashx)
The final driver, gas fuel deliverability, is an issue directly tied to efforts underway at FERC to address the mismatch between the gas and electric days. And, while the PJM Operating Committee has recently offered solutions for day-ahead dispatch and changing intra-day schedules that will go a long way toward addressing the experience of gas units last winter, there are potentially significant changes underway in other forums that will have a significant impact on how we operate in PJM. Other aspects of gas deliverability that affect generation served by local distribution companies (LDCs) likely cannot be addressed within the transition timeframe. PJM should not attempt to address the gas/electric issues (mismatched days, pipeline restrictions and ratable takes) via modifications to the current RPM resource adequacy construct. The cost to make these resources, including units that already have firm natural gas transportation, into “Capacity Performance” resources could easily exceed any rational cost benefit analysis to install necessary infrastructure (especially where dual fuel may not be available) for a resource that runs a small percentage of the year. PJM should make no changes to the flexibility and performance obligations of these resources until such time as the Commission has addressed the issues surrounding gas and electric coordination.

Another lesson learned is that there is much debate as to whether January 2014 was a 1 in 10, 1 in 20 or 1 in 40 year weather event. Yet PJM staff’s proposed modifications to RPM seem to assume we will experience such conditions as a regular course of business. It is appropriate to address the operational lessons from January in the current framework. It is not appropriate to fundamentally change RPM, which has been reported by PJM as a huge success, based on one winter’s experience.

As discussed below, this coalition agrees that the RPM resource adequacy construct could benefit from some enhancements, but nowhere near the extent and scope of what is now being proposed by PJM staff. For example, we welcome a discussion of minimum requirements to qualify as a capacity resource as well as opportunities to modify the penalties and incentives within the current construct. However, there is still much to do to be ready for a December 1, 2014 filing. More time is required to fully vet any additional changes.

As we move through 2015 assessing additional changes to the RPM resource adequacy construct, we wish to be clear in our opposition to the creation of the Capacity Performance product, with the imposition of performance penalties that could have the unintended consequence of driving otherwise viable generation units, particularly single fuel gas units, from the PJM resource mix to the detriment of load and the resource owners.

Who We Are
We represent a broad coalition of load-serving entities doing business in the PJM region. We are cooperatives, municipalities, vertically integrated utilities and competitive retail providers. A number of members own, operate, or directly contract with generation in order to provide some portion of their customers’ needs. We represent at least 50,000 MW of load, and some of our members also have significant generating resources. Many of our members are at the front
lines in delivering energy to end use customers, and as such we understand the importance of planning for a reliable system.

The members of this coalition have a close relationship with their customers and have a strong appreciation of the potential impact of power interruptions referenced in the PJM/IMM paper. We also see first-hand the impact that increased costs have on people and the economy that continues to struggle toward recovery. The offsetting benefits described in the PJM IMM Capacity Performance Cost Benefit Analysis still leave customers to pay billions above existing RPM payments and the billions added to that should FERC approve the Triennial Review filing. We trust the Board will consider those cumulative impacts and defer action until alternatives are exhausted.

Finally, we note that several, but not all, members of this Coalition are also active participants in the Transition Coalition and share the opinion that there has simply not been adequate time in these three months to fully address the details of PJM staff’s proposal.

**PJM Staff’s Proposal Goes Too Far, Too Fast**

PJM already was beginning work on the issues presented by a transition to a more natural gas-dependent system when the events of January 2014 occurred. It is worth noting that about three quarters of generator forced outages on January 7th were unrelated to natural gas supply. It is also worth noting that under the existing market rules that winter performance improved this last January over the course of the month. We understand the need to address the newly identified wintertime risk, and to ensure that suppliers who contribute to preventing that risk can properly reflect their costs for doing so. But we also believe that rushing to the proposed solution fails to recognize the value of the collective experience and abilities of the members of PJM. We believe that, working together, we could come to a better solution.

PJM’s Capacity Performance proposal is a fundamental restructuring of RPM. It is unrealistic to expect to articulate a fully formed alternative construct in three months with inadequate information. We recognize the operational issues that PJM faced last winter, and support and respect the efforts to prevent those threats to reliability and drivers of unnecessarily increased costs from happening again. But undertaking such sweeping changes amid other fundamental changes to RPM in such a short amount of time will leave us with a myriad of unintended consequences that we will have to spend the next several years correcting. PJM staff’s proposed approach to enhancing wintertime reliability will have substantial, unnecessary and unjustified economic repercussions.

The October 24th PJM/IMM Capacity Performance Cost Benefit Analysis raises additional unanswered questions. The PJM Load Coalition finds shortcomings with both the level of detail supporting the analysis as well as the findings themselves. PJM’s assumptions regarding the

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4 See [http://www.pjm.com/~/media/committees-groups/committees/elc/20140911/20140911-item-03-capacity-performance-presentation.ashx](http://www.pjm.com/~/media/committees-groups/committees/elc/20140911/20140911-item-03-capacity-performance-presentation.ashx) slide 5 - noting improved outage trends 40,200 MW/183,000 (Forced Outage Rate on 1/7/14 @ 1900) =22%, Jan 24 FO = 29,100/183,000 = 15.9%, and Jan 28 FO = 23,800/183,000 = 13.0%.
considerable potential impact from the as yet unknown RPM cost increases resulting from the VRR market rules changes pending at FERC, as well as the loss of Demand Response, bring into question its resultant portrayal of the potential cost impact of the Capacity Performance Proposal on the 2018/2019 year. Nevertheless, relying upon the calculations in the Cost/Benefit Analysis, it appears that on average RPM capacity costs could increase in 2018/2019 on the low end by 17% and on the high end by more than 60% over the already expected considerable increase in RPM. Additionally, it appears the assessment assumes the January weather events will occur with certainty each year forward, which could lead to an overstatement of the energy benefits. Further, it is unclear how improved winter performance will lead to reduced forced outage rates in the summer. Based upon these very rudimentary findings from PJM on the impact of the Capacity Performance proposal, it would seem PJM needs to provide considerably more analytic work along with providing a reasonable amount of time for stakeholders and PJM staff to consider how best to address the legitimate concern of having the required generation resources not only available but performing when needed, and to find the most efficient, least cost ways to achieve changes to RPM.

This past January’s problems were operational performance problems that manifested themselves in higher than average forced outage rates. As we have explored the drivers of this poor performance, we are already initiating operational as well as market rules changes to address this poor performance. Nonetheless, PJM staff has developed a proposed response that goes beyond addressing these deficiencies by imposing performance requirements to be 100% available to respond to the worst week in system history on the vast majority of resources every year without regard to whether they are needed, or when they are committed. In determining the amount of this performance product, PJM staff assumes that none of the resources that we have traditionally relied on throughout the year will be available, discounts renewables and storage, and only credits demand response resources if they can take reductions that match the full generating day. This reactionary and irresponsible approach will significantly increase capacity costs while providing only incremental improvement to resource availability.5

Our members with generating assets are faced with the difficult decision of risking draconian penalties (and finding some way to incorporate that risk into their costs), or trying to compete among the much more limited base capacity pool. Additionally, load servers are concerned that penalties higher than necessary will result in drastically increased offer prices and increased costs to load with little or no improved performance. The correct penalty structure warrants better vetting. We support efforts to ensure that capacity suppliers are required to be available when called on. But we cannot support establishing those requirements at what appears to be an unlimited cost. The PJM staff proposal offers capacity owners untold financial incentives to perform at critical times on top of billions of dollars in RPM payments that they already receive.

5 The Coalition notes the October 23, 2014 PJM IMM report on the Capacity Performance Benefit Cost Analysis. The projected energy savings have no theoretical or empirical basis. However, even for the sake of argument assuming they are correct, the net cost of PJM staff’s proposal is between $-1.1 billion and $2 billion in 2018/19, an unacceptable range of uncertainty. Coalition members are happy to pay their share for reliability but want to get actual, rather than illusionary value from their investment.
as an incentive to build new capacity and maintain adequately available existing capacity. Moreover, it appears that a significant amount of units could simply collect additional revenues without making any further investments despite a windfall capacity payment increase.

There are still many unanswered questions as well as unexplored alternatives. We appreciate the PJM Board’s initiative in engaging stakeholders, but the Enhanced Liaison Committee process lacks the time to properly vet and develop a complicated new capacity construct. The near-term outcome of this enhanced process should be to memorialize efforts currently underway to improve operational performance as well as a continued stakeholder process to fully explore alternatives and flesh out necessary details should additional changes be required.

**PJM Staff and the PJM Stakeholders Would Benefit from Additional Discussion in 2015**

It is appropriate to continue to discuss changes to PJM’s resource adequacy construct in the stakeholder process. Although there may not ultimately be supermajority consensus, we would all be in a better position to resolve what we can and enable the Commission to focus on resolving our differences. We believe additional focused stakeholder discussion would bring us to a place where we could agree on the scope of the problem and the nature of solutions, possibly come to agreement or at least better inform the Board of the positives and negatives of potential solutions, and avoid taking a confusing set of issues to FERC, where any outcome is possible. Taking the time to instead have changes in place for the 2016 BRA would also provide PJM and its stakeholders with additional information to support underlying analysis in designing a path forward. The EPSA decision, the Triennial Review, and the operational changes implemented by PJM and suppliers, as well as efforts on gas-electric coordination, will all have an impact on the resource mix and winter resiliency of the PJM generation fleet. Establishing requirements without understanding the impact of the other changes to RPM will result in a flawed RPM design. A properly vetted proposal with updated data and analytical support would reduce unintended consequences and allow us to consider more optimal constructs. For example, we have not even considered in the stakeholder process whether PJM should move to a seasonal capacity market, yet we are supposedly trying to primarily address a non-summer situation.

**Elements of Support**

There are significant efforts within PJM that we believe can and should be implemented to address the issues that we saw last winter. Some of these are currently underway and will hopefully be in place by this winter. These include:

- Changes to the Tariff/OA (if necessary) to allow gas units to update intra-day offers.
- Adding flexibility to intra-day scheduling to ensure suppliers are able to reflect their legitimate costs, and to change offers as actual fuel prices change.

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6 In the CP Update the desired CP target for the immediate post-transition years declined by 5% or approximately 9,000 MW based on the winter reliability analysis using winter ratings of 36% for wind (vs. 13% summer) and of 103% for other resources. The stakeholder process should consider if a unit with greater winter contribution should be compensated on this greater contribution as well as if seasonal resource volumes would allow a greater range of supply participation.
• Addressing the ability to exceed the $1000/MWH offer cap for actual costs.
• Ability to accommodate long lead units, including natural gas units, in advance of operations during extreme weather conditions.\textsuperscript{7}
• Presenting PJM operators with more accurate unit information on inflexibilities, limitations, and capabilities.
• Penalties for non-performance with exceptions for transmission outages and units dispatched down by PJM.
• Increasing the minimum availability criteria required to be a capacity resource.
• Establishing minimum flexibility requirements based on unit characteristics:
  o Start-up and notification based on unit type with reasonable minimum timeframes.
  o Offer parameters in accordance with physical limitations of the resource, with proviso that there should be an allowance for physical parameters of units to be reflective any restrictions imposed by a pipeline (regarding minimum run time).

**Elements of Concern/Opposition**

There are also significant parts of the PJM proposal that cause us serious concern, which need to be modified or eliminated before we could support the overall proposal. These include:

• The creation of inadequately vetted, new capacity products as proposed by PJM.
• The elimination of the STRPT as part of this immediate process. If PJM would like to pursue modification to STRPT, this significant change should only be pursued through a fully vetted stakeholder process where PJM should provide explanation and justification as to why it no longer believes the STRPT is necessary to prevent the systemic over-procurement of capacity as it clearly stated in response to the 2013 State of the Market Report.\textsuperscript{8}
• The level of proposed penalties, which could both deter existing resources and new entry, and cause a significant increase to offers in order to cover the penalty risk.
• The unspecified multi-year investment signal proposal, which has not been described in any detail. Artificial limits on the amount that the clearing price can change year to year do not send the appropriate price signal regarding the market’s requirement for new generation.
• The allocation of penalty money. Penalty money should only be returned to load, unless it explicitly reduces the risk premium in generator offers.
• Allowing unmitigated offers up to Net CONE. This is inappropriate, unjustified, and removes an incentive for generators to manage their risk premium, while presenting concerns about market power.
• The implementation of additional resource adequacy requirements that could cost consumers many times the cost of effective energy market and ancillary service pricing.

\textsuperscript{7} Failure to adequately account for long lead units has been a significant contributor to uplift, such as when coal plants were not clearing and needed to be committed in the reliability run for voltage. Changing how and when units are committed during these events would reduce total cost as well as the uplift component.
\textsuperscript{8} “The 2.5 percent deferred supply does not unreasonably lower capacity procurement, rather it is a mechanism to provide opportunity for short-term resource participation and to prevent systematic over procurement of capacity” Source: http://www.pjm.com/~/media/documents/reports/20140507-pjm-response-to-the-2013-state-of-the-market.ashx
• Keeping a resource whole only to physical parameters, and not doing so for natural gas-driven constraints that go beyond physical unit parameters.
• Market power mitigation premised only on astronomical penalties.
• Narrowly focused capacity performance thresholds that endanger the continued participation of reliable, affordable existing resources in the marketplace.
• The quantity cap on traditional capacity resources that have been developed and paid for by load, which may prevent such resources from clearing and eliminate their capacity benefit.

**Recommendations**

PJM’s governance process is premised on the belief that no single party in the market, including PJM itself, has a clear, unbiased view of what is best for the electric system and the markets that make it work. We always come to a better, more efficient and longer-term solution when we build on the knowledge and experience of market participants. There is no potential issue where that knowledge and experience could be of more importance than in a complete restructuring of RPM that will have implications not only for the capacity market but for actual operations, not only on extreme days but every day. As such, and with due respect for the reliability concerns that PJM has identified for the coming years, our Coalition believes that this is of such importance, and will have market and operational repercussions for such a long period of time, that the Board should only be thinking about how to come to a solution that has been fully informed by the stakeholder process with the best information available, and not about a solution that has only been barely explained to stakeholders.

As a result, we strongly recommend that PJM not make a premature filing this year. Instead, the Board should direct PJM staff to initiate focused discussions on the issues raised in our comments above.

The solutions already under discussion will enable PJM to address many of the drivers behind the excessive unit outage rates in early January. These were operational problems during an historic event, not resource adequacy construct problems.

Relative to additional changes to the resource adequacy construct, the PJM Board should direct staff to continue to work with the stakeholders to address PJM’s stated concern over sufficient resource capability for the winter of 2015/16 (the additional amount required, the mechanics of the acquisition, allocation of incremental acquisition costs, etc.).9 The need for any additional capacity for 2015/16 has not been demonstrated; the Coalition needs further investigation and quantitative analysis to determine there is an actual reliability problem that

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9 At a minimum, this discussion should include: (1) determining the amount of additional capacity actually needed based on quantitative analysis that includes a reliability based assessment using winter ratings, and providing members with an expectation of where that capacity will come from; (2) based on quantitative analysis, determining the amount available from improved winter capability of already committed RPM resources for the 15/16 DY, so that we can properly value the efforts put forth by supply sources to correct last winter’s issues, and (3) adjusting downward the total amount needed by the amount of MATS generation that can be recovered via seasonal auction.
requires the procurement of additional capacity. Should such a need exist, a process can be addressed by March 1, 2015 to have any additional capacity, if necessary, in place for the December-March period.

Additionally, PJM staff and the stakeholders should continue to discuss and refine certain elements of staff’s proposal such that a filing could be made in the Fall of 2015 if any additional changes to the resource adequacy construct (penalties, minimum participation criteria, etc.) are found to be necessary, for the 2016 base residual auction for the 2019/2020 delivery year.

Outside of changing its electric day to 10 AM and shortening the run-time of the day-ahead market software, PJM should not attempt to resolve gas/electric issues that are properly within FERC’s ongoing process.

**Conclusion**

We ask the Board to consider our comments as evidence of our strong desire to resolve potential wintertime issues in a way that continues to provide our many customers with reliable electric supply at an affordable cost. We urge the Board to direct PJM to work with stakeholders to implement the measures that will improve reliability in the coming winter and to have focused, informed discussions on how best to address those concerns on a longer-term basis. We are convinced that by rushing to a conclusion, without adequate understanding of the impacts of the proposal, PJM is coming up with a wrong answer. We must work together to come up with the right one.
Submitted on behalf of:
The PJM Public Power Coalition:
  Delaware Municipal Electric Corporation
  Allegheny Electric Cooperative, Inc.
  Easton Utilities Commission
  Old Dominion Electric Cooperative
  North Carolina Electric Membership Corporation
  WPPI Energy
  Borough of Chambersburg
  Madison Gas & Electric Company
  Blue Ridge Power Agency
  Central Virginia Electric Cooperative
  North Carolina Municipal Power Agency Number 1
  Illinois Municipal Electric Agency
  Indiana Municipal Power Agency
  American Municipal Power, Inc.
  Buckeye Power, Inc.
  Northern Virginia Electric Cooperative
  Long Island Power Authority
  Hagerstown Light Department
  Town of Williamsport
  Energy Cooperative Association of Pennsylvania
  Borough of Mont Alto, Pennsylvania

  Thurmont Municipal Light Company
  National Rural Electric Cooperative Association
  The Public Power Association of New Jersey:
  Borough of Butler Electric Division
  Borough of Lavallette
  Borough of Madison
  Borough of Milltown
  Borough of Park Ridge
  Borough of Pemberton
  Borough of Seaside Heights
  Borough of South River
  Vineland Municipal Electric Utility

  Champion Energy Services, LLC
  Southern Maryland Electric Cooperative, Inc.
  DTE Energy Trading, Inc.
  Duquesne Light Company
  Virginia Electric & Power Company
  Direct Energy Business, LLC
  Washington Gas Energy Services, Inc.
  Rockland Electric Company