Mr. Howard Schneider  
Chairman, PJM Board  
PJM Interconnection LLC  
P.O. Box 1525  
Southeastern, PA 19399-1525

Mr. W. Terry Boston  
President and CEO  
PJM Interconnection LLC  
955 Jefferson Avenue  
Norristown, PA 19403

Re: **Effect of PJM’s Capacity Performance Proposal on Maryland’s Standard Offer Service Auction**

Dear Mr. Schneider and Mr. Boston:

I write to bring to your attention the significant concerns of the Maryland Public Service Commission (Maryland PSC) regarding the adverse impact of PJM’s recent proposed changes to its capacity market on Maryland’s standard offer service (SOS)\(^1\) auction. Specifically, I am referring to PJM’s Capacity Performance proposal, which seeks to address certain presumed reliability and operational concerns articulated most recently in PJM’s October 7, 2014 whitepaper by creating an enhanced Capacity Performance Product.\(^2\) As stated in the October 28, 2014 Comments of the Organization of PJM States, Inc. (OPSI), in which the Maryland PSC joined, the changes proposed by PJM to its capacity market are complex, could result in “substantial adverse pricing effects upon end users,” and are currently unsupported by sufficient data for stakeholders to form a position regarding the need or benefits of the proposal.\(^3\) That conclusion is especially evident given that the many incremental changes PJM stakeholders have proposed and PJM has implemented to address reliability concerns may prove sufficient to resolve any reliability issues identified in PJM’s whitepaper without resorting to extensive redesign of the capacity market.\(^4\) OPSI therefore urged PJM to: (i) pursue near-term solutions to mitigate reliability concerns that can be implemented within the current market definitions; and (ii) continue and expand the stakeholder deliberation process regarding the Capacity

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\(^1\) Approximately 70 percent of Maryland’s residential customers take electric service from their investor-owned utilities through SOS rather than from a competitive retail supplier.  
\(^2\) See October 7, 2014 Problem Statement on PJM Capacity Performance Definition, previously released on August 1, 2014.  
\(^3\) October 28, 2014 OPSI Comments at 1-2.  
\(^4\) Such possible changes include gas/electric system coordination measures, weatherization and testing of certain generation, and targeted winter auctions.
Performance proposal with the expectation that any changes approved by that process would not be implemented before the May 2016 Base Residual Auction (BRA).  

Unfortunately, before PJM has even had the opportunity to respond to OPSI’s request, the Capacity Performance proposal has already imposed a material adverse effect on Maryland’s SOS auction. As referenced in several energy industry periodicals, the uncertainty created by the Capacity Performance proposal, especially with regard to requiring changes in transition years to capacity resources that already have bid and cleared in PJM’s BRAs, has significantly limited the number of generators willing to register to bid in Maryland’s SOS auction as well as the number of actual bids received.  

Specifically, on October 20, 2014, the Maryland PSC conducted SOS auctions for full requirement services for its residential and small and medium commercial customers, wherein the State’s four investor-owned utilities sought a total of 2,183.6 MW. However, only five bidders submitted bids on one or more of the ten products available in the auction, which represents four fewer bidders than were received in the immediately preceding auction.  

Only two bidders offered to supply residential and Type I (small commercial) SOS supply generally and only one bidder made offers for several other products. For example, Pepco’s 330.4 MW of combined residential and small commercial product, Potomac Edison’s 45.8 MW of 12-month residential supply, Potomac Edison’s 45.8 MW of 24-month supply, and Delmarva Power’s 121.9 MW of residential and small commercial supply each received only one bid. The auction as a whole, the Maryland PSC received a ratio of 1.8 MW bid for every megawatt solicited, a significant reduction from the previous auction, in which 3.0 MW were bid for each megawatt required. For residential and Type I commercial SOS, the ratio in last week’s auction was only 1.2 to 1. 

Boston Pacific, the Bid Monitor for Maryland’s SOS auction, testified that the primary cause of the reduced competition among generators was the lack of clarity surrounding PJM’s capacity market. Boston Pacific explained: “The primary cause [of reduced bidding] was uncertainty surrounding PJM’s capacity market. PJM is currently considering several changes which will have an effect not only on prospective capacity prices but also on prices that have already been established.” The Bid Monitor concluded that “the current level of uncertainty

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5 See also the September 17, 2014 Comments of the Maryland PSC on the PJM Capacity Performance Proposal, seeking similar action.


7 See Direct Testimony of Frank Moshburg and Katherine Gottshall, Boston Pacific Company, on Behalf of The Staff of The Public Service Commission of Maryland at 6, Case No. 9056, In the Matter of the Commission’s Investigation into Default Service for Type II Standard Offer Service Customers, and Case No. 9064, In the Matter of the Competitive Selection of Electricity Supplier/Standard Offer or Default Service For Investor-Owned Utility Small Commercial Customers ... and Residential Customers.

8 Direct Testimony of Frank Moshburg and Katherine Gottshall at 10.

9 Id. at 6.

10 Id. at 7.
was great enough to keep many bidders from offering for the longer-term Residential and Type I products.” Maryland’s Office of People’s Counsel similarly concluded that the most likely reason for the reduced level of bids was the “tremendous amount of uncertainty” caused by PJM’s recent proposed changes, adding that “the reasonableness of the bid solicitation results relies on the receipt of bids in sufficient numbers to indicate that the bids are ‘competitive.’”

Although the Maryland PSC accepted the bid results and determined that the SOS auction was in line with market conditions, the material reduction in generator interest in bidding in the auction is a cause of great concern to the Maryland PSC. The uncertainty created by PJM’s proposal to drastically change its capacity market and create stringent new requirements on generators that already have bid and cleared in previous BRAs is having a chilling effect on our State auctions. We therefore renew our appeal to PJM to pursue and evaluate the efficacy of near-term solutions to mitigate any reliability concerns identified in PJM’s whitepaper, and to delay implementation of the Capacity Performance proposal, specifically by extending the implementation of any changes to the May 2016 BRA and removing entirely the proposal to implement changes through transition years in BRAs already conducted.

Sincerely,

W. Kevin Hughes
Chairman

cc: Andy L. Ott, Executive Vice President - Markets
    Dr. Joseph Bowring, President of Monitoring Analytics, Independent Market Monitor for PJM
    Abigail Ross Hopper, Esq., Director of Maryland Energy Administration, Energy Advisor to Governor Martin O’Malley
    Paula M. Carmody, Maryland People’s Counsel

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12 See Order No. 86684 in Case No. 9056 and Case No. 9064.