American Electric Power Service Corporation’s Comments on
the PJM Capacity Performance Proposal Dated
August 20, 2014

(September 17, 2014)

American Electric Power Service Corporation, on behalf of its state-regulated utility affiliates within PJM, hereby submits comments to the Capacity Performance Proposal issued by PJM Interconnection, L.L.C. (“PJM”) Staff on August 20, 2014 (the “Proposal”). PJM proposes to add an enhanced capacity product—Capacity Performance—to the Reliability Pricing Model (“RPM”) and to “reinforce the existing definition of the Annual Capacity product.”¹

The Proposal initially appears intended to address “capacity products PJM proposes to be eligible to…commit to an Fixed Resource Requirement (FRR) Capacity Plan, including a new Capacity Performance product.…”² Yet PJM leaves the applicability of the Proposal to FRR entities as an open question, listing it as an item that may require clarification or revision.³

AEP is one of the few companies that chose the FRR alternative for self-supplying its capacity requirement – and it made that decision based on the rules in place at the time. Because of FRR’s unique relationship to both RPM and to state regulatory agencies, AEP believes that FRR entities should be exempted from the Capacity Performance plan altogether. FRR entities do not receive capacity payments through the RPM, and thus, will not benefit from any addition revenues generated through the incremental or base auctions.

If FRR entities cannot be excluded entirely from the Capacity Performance plan, PJM should revise the Proposal as applied to FRR entities, as follows:

• **Exclusion for Interim Years.** The FRR entity has made its commitment to self-supply its own capacity requirements through the 2017/18 delivery year. This commitment was based on the PJM rules and the characteristics of its generating fleet at the time of the FRR three-year forward plan submittal. PJM’s Proposal amounts to a retroactive revision of the resource requirements for AEP’s approved FRR plan. If the requirements PJM now proposes had been in effect at the time AEP made its commitments, AEP may have made a different decision.

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¹ Proposal at 4.
² Proposal at 4.
³ Proposal at 33.
Exclusion for the interim period is further warranted because, unlike generating units which participate in the RPM, no immediate additional revenues will be approved by state commissions for capital expenditures related to the Capacity Performance plan on such short notice. This puts our regulated operating companies at great financial risk.

**Alternative to Financial Penalties.** State utility regulatory commissions will not permit the FRR entities to recover for penalties, yet the Capacity Performance Proposal is set up so that there is virtually no chance of avoiding penalties for non-performance during Hot/Cold Weather alerts because of the magnitude of the hours to be measured. Again, RPM units can mitigate this risk through increased revenues in their offer and clearing price in both the interim and the future delivery years. FRR units do not have that revenue option.

Therefore, as an alternative to a financial penalty applied to FRR generators, AEP suggests that, starting in the delivery years 2018/19, PJM could make an adjustment to the FRR unit’s UCAP rating to reflect its forced outage rate during peak times. For example:

- Assume a 1000MW ICAP unit with an average 10% EFORd rate. Its UCAP rating would be 900MWs.

- Next assume that this unit’s forced outage rate during the 600 Hot/Cold Weather alert hours is 15%. Under the current proposal, if the average LMP during the Hot/Cold Weather alert hours is $75/MWH, the unit’s Capacity Performance penalty would be 600hours x 15% x 1000 x $75 = $6.75M

- Under the AEP proposal, the UCAP rating would be adjusted by 5% for this unit (15% - 10% historical), or 50MWs. If this makes the FRR plan short, the FRR entity would have to procure an additional 50MWs for the following delivery year. The bi-lateral transaction price is unknown. But this type of arrangement would allow a better chance of cost recovery in a state regulatory mechanism.

- This additional UCAP obligation would be in place annually, giving this unit a year to improve its performance for the following year.

AEP urges PJM to consider fully the potential consequences of its Capacity Performance Proposal on units that do not participate in RPM.