Comments on PJM’s Capacity Performance Proposal:

Allegheny Electric Cooperative, Inc. ("Allegheny") shares PJM’s concerns regarding the need for reliable generation resources for all seasons and all circumstances. As the events of winter 2014 demonstrated, Load Serving Entities (LSEs) have been paying for capacity resources through the Reliability Pricing Model (RPM) that unfortunately, were unreliable and undependable when needed most.

PJM is now seeking to remedy the situation by creating a new capacity product (Capacity Performance) at a presumably higher price. Our concern is that PJM’s proposal is a complete redesign of the capacity market which will most likely result in higher costs to Load without adequately addressing the root cause of the reliability problems that occurred in winter 2014.

PJM’s own analysis indicates that the majority of the resources which were unavailable were natural gas-fired generators forced out due to gas curtailments and discontinuities between the way the natural gas and electricity markets operate. There is no guarantee that potential increased revenues associated with the proposed Capacity Performance product would properly incent gas generators to make investments that would solve winter reliability concerns. PJM has not given proper time and consideration to assessing the very complex link between penalties and incentives. If one of these factors is weighed too heavily in one or the other direction, the cost of acting too quickly could be felt by all PJM members for years to come.

Rather than instituting a complete redesign of the capacity market, PJM may be better served to first focus on instituting transitional rules and procedures to alleviate potential reliability concerns for Winter 2015/16 and, if necessary, Winter 2016/17. This period is critical as the natural gas transportation
infrastructure is built to deliver Marcellus Shale gas into the market and operational coordination between the natural gas and electricity markets is improved. A transitional approach would allow PJM and stakeholders the time necessary to fully develop long term solutions that achieve reliability goals in a cost effective manner. PJM and stakeholders clearly cannot fully vet such wholesale changes to its capacity market in the time-frame that PJM has allotted the current Enhanced Liaison Committee (ELC) process.

PJM’s proposal is nearly silent on the rules and procedures to be established to improve reliability in the coming winter periods of 2015/16 and 2016/17. Since natural gas-fired generation saw an unprecedented forced outage rate due mainly to gas curtailments and inflexibility in gas markets during winter 2014, one possible area of focus for the upcoming peak winter periods would be to address the unavailability of these units through new assumptions in PJM modeling. Rather than forcing the majority of PJM’s resources to adhere to new stringent rules and requirements, higher Effective Force Outage Rates (EFORd) tied to peak winter condition capability could be applied to natural gas generators. Additional capacity could then be procured in an Incremental Auction (IA) to satisfy any resulting Installed Reserve Margin shortfall. Allegheny is open to the discussion of this and other transitional solutions proposed by both stakeholders and PJM staff, however, we believe that a transitional approach, more narrowly focused on the problems of gas curtailments and winter peak forced outage rates would be a much more effective use of the time allotted to the Enhance Liaison Process than the wholesale market redesign currently proposed.

Given more time and a more robust vetting process, which should include collaboration with the Federal Energy Regulatory Commission, state utility commissions, and the natural gas industry, an efficient and creative long term solution could be developed.

Sincerely,

Todd Sallade
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