Comments on PJM Capacity Performance Proposal

Sept. 17, 2014

Consolidated Edison Energy, Inc. & Consolidated Edison Solutions, Inc.

While Consolidated Edison Energy, Inc. (CEE) and Consolidated Edison Solutions, Inc. (CES) are supportive of PJM efforts to ensure system reliability, CEE and CES are both concerned about the proposed approach that PJM is undertaking. First, CEE and CES must point out that any mechanism that creates a new capacity product or results in incremental capacity costs for the 2015/2016, 2016/2017 and 2017/2018 planning years, is a significant departure from the current three year forward framework for PJM’s capacity market. All market participants have come to rely on the cost and regulatory certainty of the 3-year forward mechanism. This allows retail suppliers like CES to account for future capacity costs in their retail contracts with customers and modifying this capacity market construct without the typical three year forward lead time would result in unpredictable and potentially unrecoverable costs for retail LSEs.

While CEE and CES recognize that PJM is still debating what to do during the three transitional delivery years, we want to stress the importance of creating a mechanism that addresses clear reliability concerns and, at the same time, avoids severe market disruptions. As a prerequisite to this effort, PJM should quantify the reliability concerns (preferably through an LOLE calculation) that currently exist for each of the three transitional planning years. PJM should then define the amount of Capacity Performance (CP) resources that it believes is necessary to address the reliability concerns. Finally, for each year of this transition period, PJM should provide an estimate of the MWs of existing resources that can actually qualify as a CP resource and the cost to achieve that capability. Only by first looking at the capital investments and lead-time, including time to obtain permits, for existing capacity resources to qualify as CP resources can a reasonable transition plan be developed and implemented. Otherwise, PJM runs the risk of setting an unachievable requirement that could be costly to consumers and ultimately fail to achieve the desired reliability improvements.

Also, if a transition mechanism is adopted, CEE and CES would recommend that PJM establish a new PJM billing line item for the incremental capacity costs resulting from the newly adopted transition mechanism. This should clearly identify the new costs as distinct from existing market charges. This transparency will aid in customer education and awareness as to the driver behind the cost increases.