The Delaware Public Service Commission ("Delaware PSC") appreciates and supports PJM in accomplishing its primary mission: to ensure the safety, reliability and security of the bulk electric power system. Certainly the goal of PJM to ensure the reliability of the grid given the significant changes being recommended through the Capacity Performance Proposal\(^1\) ("CP Proposal") is commendable. However, the Delaware PSC Staff has significant concerns with the PJM proposal to establish a new Capacity Performance resource. As discussed further below, the CP Proposal has the potential to create a great deal of uncertainty in the capacity and energy markets that could result in significant cost increases to customers without corresponding increases in benefits to justify those additional costs.

Discussion at the initial meeting of the Enhanced Liaison Committee ("ELC") to address the CP Proposal included a PJM suggestion that stakeholders not lose sight of the "value" provided to customers by PJM energy. The Delaware PSC Staff is unaware of any jurisdiction that has implemented rates to customers justified on the basis of the customers' "value" of the energy consumed. As a general rule, rates paid by customers are based (to a varying degree) on a cost of service study reflecting financial costs. To the extent that there might be such "value"-based rates implemented in the PJM service footprint, the Delaware PSC Staff would suggest that such value-based rates are the exception that proves the rule. The Delaware PSC Staff, therefore, would urge PJM not to include the "value" proposition as support for the CP Proposal as such a suggestion would be neither fair nor equitable to customers.

The genesis for the CP Proposal was the performance of PJM generation capacity during the recent winter 2013/2014 winter period, particularly during January of 2014. As noted by PJM, up to 22\% of generation capacity was unavailable due to cold weather-related problems. The Delaware PSC Staff would agree with PJM that such performance highlighted a potentially significant reliability issue particularly made more acute by the transition to increased generation from natural gas-fired generation capacity.

PJM's CP Proposal is an overly broad cannon blast to the entire RPM/BRA processes rather than focused rifle shots to specifically address identified generator performance issues. PJM, to its credit, has responded appropriately (even aggressively) to resolve problems that had an impact on the performance of generation during the past winter period. As reported by The Executive Director - Operations Support:\(^2\)

Starting with several recommendations that came from our Cold Weather Report (PDF), PJM has been looking at improvements to the grid infrastructure, operating tools, training and processes to be in place before the cold arrives. Among them are efforts that will help to ensure the reliability of generation and transmission and the readiness of grid operators.

\[\ldots\]

Recommendations are also addressing generation and its availability. Testing and preparation checklists will be available for generators. Improved gas-unit commitment coordination in operations and better overall coordination is expected between the gas and electricity industries.

The referenced Cold Weather Report lists no less than 20 specific recommendations as of August 4, 2014 and, for example, includes additional testing for generators as well as PJM gas unit commitment procedures. Without allowing the proposed recommendations to have an effect, PJM is committed to

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\(^2\)PJM State Lines September 2014 Executive Column [http://www.pjm.com/about-pjm/newsroom/newsletter-notices/state-lines.aspx#Article_1](http://www.pjm.com/about-pjm/newsroom/newsletter-notices/state-lines.aspx#Article_1)
pursuing its CP Proposal not to mention the concurrent decision by the PJM Board to file a modified version of the PJM staff proposal for the triennial review parameters as well as proposed elimination of the energy market offer caps. The Delaware PSC Staff would suggest that such fundamental changes to the RPM/BRA and energy markets creates significant uncertainty that PJM should seek to mitigate or eliminate.

At the initial meeting, PJM appropriately recognized that ultimately there needs to be a balance between the costs to implement the CP Proposal and the benefits that would be achieved. The potential costs of PJM’s CP Proposal implementation could be significant and could arise from a wide range of sources. The Delaware PSC Staff has monitored PJM discussion with stakeholders regarding the CP Proposal and it is difficult not to have great concern with the absence of specific details needed to understand the cost, operation, and other impacts that could result from the CP Proposal. While it is understandable that PJM cannot provide the level of specificity being requested and that additional details will be provided as a result of the ELC process established by PJM, the Delaware PSC Staff would suggest that its ultimate acceptance of the CP Proposal would depend on the necessary balance between costs and benefits that result from the CP Proposal implementation. At this time the comments of the Delaware PSC Staff will not address the numerous specific issues that have been raised during the ELC process except to note that it agrees with the comments addressing Transition Period concerns.

As identified by PJM, the eligibility to be a Capacity Performance resource requires a certification, among other things, that the generation resource must have on-site fuel (or dual fuel backup capability) for at least 16 hours of continuous operation per day for three consecutive days and for gas-only generation resources a secured fuel supply with some combination of firm transport, firm commodity and access to storage or equivalent to provide flexible operation during peak gas-usage conditions.\(^3\) In a report dated September 15, 2014 the Market Monitor issued its Capacity Performance Product Assumptions for costs of annual firm gas service, five day firm gas service and adding dual fuel oil burning capability. For example, the Market Monitor simulations of capacity market outcomes would include estimates for cost to secure around the clock firm transportation of natural gas that range from $31,317/MW-YR to $85,410/MW-YR. Without some estimate of MWs and the other related variables, the cost impact to customers remains unknown pending the actual implementation of PJM’s CP Proposal; and this is just one element of concern. Another example of potential customer costs in order for a Capacity Performance resource to meet the availability and flexibility requirements is the expectation that it is staffed and ready to operate at all times except during a planned outage.

During ELC discussions as well as in the CP Proposal, PJM has stated that actions taken by the generation owner to meet the availability and flexibility requirements for a Capacity Performance resource are not mandated but, rather, “the decisions are left up to the individual resource owner on how to best manage fuel availability risks.”\(^4\) While the Delaware PSC Staff understands the reasoning stated by PJM regarding costs incurred to meet the expectations for a Capacity Performance resource, the result is that there cannot be a meaningful understanding of the cost to customers resulting from implementation of the CP Proposal. The other difficulty in assessing the balance between costs and reliability benefits from implementation of the CP Proposal is the extent to which reliability would be improved. The winter period identified approximately 100 hours of operation (or less) that were under extreme weather conditions and during which there was an elevated risk of failure. As a result of implementation of PJM’s CP Proposal it will not be possible to identify any reduction in the number of hours where there is an elevated risk of failure due to extreme conditions. Despite the increased flexibility and availability of generation resources as a result of implementation of the CP Proposal, during times of stress to the PJM grid, as well as natural gas facilities, difficulties will still be encountered. Customers, however, will be paying additional cost

\(^3\) PJM CP Proposal, page 5.
\(^4\) Id, page 8.
premiums for increased availability and flexibility during all hours of the year when the benefits would be limited to a very few number of hours that might occur over an unknown number of years.

Another area of the CP Proposal that has not received sufficient discussion (which is understandable given the difficulties with the flexibility and availability requirements of a Capacity Performance resource) is Cost Allocation. The Capacity Performance FAQ Response document dated September 14, 2014\(^5\) addresses the importance of the winter operations on reliability (page 8) and “that the proposed changes to create a Capacity Performance resource are primarily to assure better availability of capacity in winter” (page 13). The option identified in the CP Proposal to address winter peak allocation\(^6\) is inadequate and results in a distortion to customers in the link between cost causality and cost responsibility. PJM suggests recognizing the risk due to winter operations in the cost allocation with a summer/winter risk ratio of 0.9/0.1 although customer capacity obligation could still be based on the summer peak. Such a methodology would not only distort prices and costs for customers, it would also stifle the development of customer options to reduce their contribution to such winter peak periods and avoid costs. For example, if thermal options (such as large capacity grid-interactive water heaters) were allowed to reflect a greater cost benefit due to increased peak load during winter periods, then such thermal options would be more cost effective for development. The greater development of thermal options would most likely not occur if the proposed summer/winter risk ratio of 0.9/0.1 were implemented.

While the Delaware PSC Staff appreciates PJM’s desire to achieve continuous service regardless of circumstances, the cost for such a premium service goal of increased availability and flexibility of Capacity Performance resources is beyond the means of most customers. Just as there are no tariffs reflecting “value” of service charges to customers, there are no tariffs of which the Delaware PSC Staff is aware that impose a continuity of service requirement on an energy service provider.

These comments of the Delaware PSC Staff should not be taken as suggesting that the current operation of the BRA/RPM and energy markets are not without problems that need resolution. There certainly are significant BRA/RPM issues that should be addressed by the stakeholders. Not the least of such issues is the failure of the RPM/BRA capacity market to recognize that all annual capacity is not homogenous. There are significant distinct differences and characteristics between generation resources such that a simple cycle combustion turbine is not equivalent (or a full substitute for) a combined cycle generation resource which, in turn, is not equivalent (or a full substitute for) a coal or nuclear generation resource. Such fundamental issues as whether all generation resources are homogenous and should receive the same annual capacity payment, as well as the issues identified in the CP Proposal, require a reasoned and comprehensive stakeholder process rather than the abbreviated ELC process being relied upon by PJM for ultimate approval by the FERC.


\(^6\) Id, page 32.