Indicated PJM Utilities Coalition Comments on
PJM Capacity Performance Proposal Dated
August 20, 2014

(September 17, 2014)


The Coalition is concerned that various elements of the Proposal as currently constructed could actually have the opposite effect of what is intended. The size and likelihood of increased penalties under the current Proposal, matched with continued uncertainty in the capacity price, could easily result in a net revenue decrease for steam generation units, which could further spur premature retirements. With the improvements suggested here, however, the Coalition believes the Proposal can help ensure that reliability in the PJM region is maintained. Specifically, PJM must amend the Proposal to:

- include a mechanism such as a minimum offer price equal to a percentage of the net cost of new entry (“Net CONE”) to ensure that prices for the CP product clear at just and reasonable levels to cover the new risks imposed by CP and eliminate the harmful impacts to reliability from the unwarranted administrative price volatility and price uncertainty that has plagued RPM since its inception;

Additionally the following changes will improve CP by allowing for a smooth transition to the new market and rules that better achieve the goals of PJM operations without imposing unnecessary costs and risks to all market participants:

- include transitional measures that also incorporate a mechanism to ensure revenue certainty for the Capacity Performance product, as discussed below;

- reduce and cap the proposed penalties for CP in a number of ways and phase the penalty caps in over time;

- specifically state that this is a voluntary market that suppliers can choose to bid into and that suppliers are not required to submit offers for the CP product;

¹ Proposal at 4.
• require, as qualification criteria for the CP, that gas-fired units have no notice firm transportation and no notice firm storage arrangements, as well as a direct interconnection with an interstate pipeline, with the option to audit these qualifications as necessary;

• clarify the offer cap language with specific categories and definitions for ACR calculations; and

• allow a risk premium of $40/MW-day based on true forced outage risks during Hot/Cold Weather alert hours with an ability to justify a higher risk premium as determined by each market participant and validated by the market monitor.

Absent these changes, the Coalition does not believe that the Proposal will sufficiently enhance reliability in the PJM region and may even reduce the supply options currently available to PJM.

In addition to the changes to the Proposal identified herein, the Coalition suggests that changes are needed in the Incremental Auctions (“IAs”) for both the Base Capacity and CP products to eliminate the opportunity for speculative bidding activity.

Finally, the Coalition urges PJM to provide interested stakeholders an opportunity to review amendments to PJM’s Open Access Transmission Tariff (“PJM Tariff”) and manuals before PJM makes any filing with the Federal Energy Regulatory Commission (“FERC”) to implement the Proposal. The changes being proposed will affect a number of aspects of the PJM Tariff and manuals, and providing stakeholders with an ability to review those changes before a FERC filing is necessary to provide a fuller and more complete understanding of the Proposal and to eliminate certain issues that otherwise would arise in a FERC proceeding. Thus, the Coalition’s support of the PJM Proposal hinges on its review and approval of the amendments to the tariff and manuals.

I. PJM Should Adopt a Minimum Offer Price for the CP Product To Ensure Revenue Adequacy for More than Just the Initial Year

FERC has made clear that it does not wait for shortages or reliability issues to occur before it implements remedies that will help maintain reliability. It has, on a number of occasions, accepted proposals to protect against undue price suppression, including acceptance of minimum offer price rules and, as a transitional mechanism, a rate floor. Adopting a minimum offer price for the CP product will be consistent with FERC precedent and policy.

PJM has developed the Proposal at least in part due to reliability concerns related to operational performance of existing units under extreme weather conditions and in response to the “major fuel switch . . . occurring as coal generators retire and new natural gas generators

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replace them.” Over 14,000 MWs of generation have already announced retirement. In addition to those resources, many valuable resources located within PJM’s service area, particularly in Western PJM, are “at risk” for retirement because they are not currently recovering their operating costs. PJM simply will not be able to maintain the level of reliability that customers expect and require if additional resources with on-site and firm fuel capabilities retire at this critical juncture or are unwilling to risk additional capital expenditures where future recovery remains uncertain and unpredictable. PJM’s Proposal must be evaluated against this backdrop.

Resources that provide the highest level of reliability will only be attracted to and remain in the PJM market if they have confidence that their investment will be recovered through market prices. In other words, PJM must assure that the market price reflects the value associated with the higher degree of reliability that these resources provide. To date, RPM has not provided the revenue adequacy (through the reduction of price volatility) required. The average capacity price in the Rest of Market, for example, has been only 43.4% of Net CONE, and this revenue insufficiency is not the result of supply and demand conditions. Moreover, the price volatility that the RPM has exhibited has been significant, with the standard deviation in Rest of Market prices equal to almost 50 percent of the average clearing price since the RPM was implemented. This level of price volatility does not appear to be the result of market forces, but rather (among other things) a result of the unintended consequences throughout the years of changes in rules and legal requirements, and changes in interpretations of RPM rules.

This combination of revenue inadequacy and price volatility is particularly significant in the RPM, given that the RPM provides only annual revenues for multi-year (often 20 year or greater) investments, and other long-term revenues generally are not available. The result is an investment environment with considerable uncertainty. These issues will be even further magnified for the CP product. The CP product has strict requirements for compliance and penalties that, even if changed as discussed below, can be significant, and exceed the total revenues received for providing the service. Unless sufficient revenues can be reasonably expected from providing the CP product, suppliers will not incur the additional expenditures that may be required to satisfy the performance standards of the product or otherwise offer to provide CP product and take on the risks associated with that product.

PJM’s first draft Proposal will not result in revenue adequacy over time and does not even attempt to address unwarranted price volatility in the RPM. It thus will not help retain and attract resources with on-site and firm fuel, which provide the greatest reliability benefits to the system nor will it improve unit availability. RPM is intended to send a long term price signal to capacity resources. It does that with a series of one year prices established three years forward. It is reasonable to provide protection to the long term signal from short term aberrations, which historically have occurred due to incomplete rules or exploitation of those rules. In RPM, those

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4 Proposal at 4.
6 E.g., 2016/2017 RPM Base Residual Auction Results at 16.
problems have been addressed after the auction established the forward price, but those lost revenues are never recovered by capacity suppliers. These administrative problems have led to great unpredictability of forward RPM price expectation and attendant uncertainty of recovery of future operating costs and recovery of additional capital investment to the detriment of system reliability.

If PJM adopts the current Proposal, there may be an initial, one-time increase in clearing prices for CP resources. Suppliers may need to invest in significant capital improvements to existing units in order to meet the qualifications for CP, and units may reflect such costs in their initial offers. However, absent changes to the Proposal, bidding behavior then likely will revert to the bidding behavior seen in the RPM to date—the very bidding behavior that, in combination with RPM rules, has led to the suppression of prices and price volatility that is placing fuel diversity and system reliability at risk. Moreover, price suppression associated with, among other things, participation by Demand Resources (“DR”) and speculative bidding will continue.7

PJM’s thesis appears to be that the increased performance penalties will flow through the market and result in higher clearing prices for resources providing the CP product. However, even if the one-time increase in clearing prices occurs, there is no mechanism to assure that prices for the CP product will continue to clear at a sufficient premium to the Base Capacity product and the other capacity products. The Coalition understands that PJM’s initial analyses indicate that the additional payments made to CP resources (stated in the form of risk premiums) will not likely exceed $15-$20/MW-day. That level of payments will fall well short of providing revenue adequacy and creating incentives for PJM’s desired reliability improvements.

In sum, one of the Coalition’s primary concerns is that the Proposal will impose significantly stronger performance obligations on resources that are already struggling, without providing any mechanism that will ensure that CP clearing prices will reflect the additional risk that resources are undertaking. In order to provide proper incentives for resource owners to invest additional capital in performance-enhancing upgrades, resources must have a reasonable opportunity to recover those investments. Particularly in the Western portion of PJM, that opportunity is not present today. The Coalition is convinced that the Proposal, which contains no meaningful changes with respect to price formation, will not alter the status quo.

Specifically, PJM proposes to use the same RPM clearing mechanism with only modest adjustments that it uses today for the three current capacity products. Yet this mechanism has consistently resulted in clearing prices that are not reflective of the differing performance obligations of the various capacity products. This phenomenon puts the resources that provide the highest quality capacity products at a competitive disadvantage, as, for example, Limited Demand Resources that are required to perform in only 60 hours per year are almost always paid nearly the same price as Generation Capacity Resources that are required to perform in 8,760 hours. Stated another way, the manner in which the clearing mechanism operates, when

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7 E.g., Transmittal Letter, Docket No. ER14-1461-000 at 2 (filed on March 10, 2014) (speculative bidding “suppresses clearing prices’’); Analysis of the 2016/2017 RPM Base Residual Auction at 35 (addressing price suppression associated with Extended Summer DR and Limited DR products.)
combined with the other RPM rules and supplier offer behavior, affords the lower quality capacity resources a distinct competitive advantage over the resources that provide greater reliability benefits to the system. There is simply no reason to expect that the addition of a fourth capacity product will lead to a meaningful change in the pattern of clearing prices.

The adoption of a price stabilizing mechanism such as a minimum offer price for the CP product will address these concerns by assuring suppliers that there is a limit to their downside clearing price risk. In this sense it operates much as the current price cap of 1.5 times Net CONE operates for load – it would provide a reciprocal assurance that prices will not clear too low. The Coalition suggests that the minimum offer price be set at a percentage of Net CONE that balances two objectives – supporting revenue adequacy and limiting risk for necessary resources while not causing an artificial surplus of unneeded or uneconomic generation. A minimum offer price or other revenue stabilizing mechanism is critical to preventing additional retirements and delivering the reliability that PJM requires. It needs to be uniformly applied across all LDAs in RPM and the market-clearing algorithm should be modified if needed to ensure that the clearing price in each zone cannot be below the minimum offer price.

II. Additional Transitional Measures Should be Adopted

Unlike the BRA, for which there is an existing clearing mechanism (albeit flawed as discussed above), there is no “off the shelf” mechanism for existing capacity resources to commit to an enhanced capacity product while also clearing new capacity resources in the IAs. Further, if the IAs do not clear at prices that are compensatory relative to the capacity product sold, many of the resources will not be able to justify remaining in operation. PJM should consider paying capacity resources a set payment for providing the higher quality capacity product during the transition period. Such a mechanism would provide a much-needed level of certainty that would allow many resources to defer retirement during the major transition taking place on the PJM system.

The Coalition recommends that for Delivery Years 2015/16 through 2017/18, resources providing the Capacity Performance product should be paid a minimum price set equal to the level of the minimum offer price discussed in Section I, above. Units that qualify for this payment should be required to accept a performance metric of not less than 85 percent fleet equivalent availability factor (excluding scheduled outages) or incur penalties, capped at 1.2 times the unit’s annual capacity revenue. Payments under this proposal would be net of any capacity payments that are due to the units under PJM’s existing RPM auction cycles for the applicable Delivery Year.

Adopting this approach will provide several benefits. First, it will provide significant revenues to the CP units that need to start investing now to meet the performance metrics for the 2018/19 and later Delivery Years. Much of the fossil fleet in PJM currently has a forced outage rate of greater than 10%, and significant money is needed now in order to make the investments necessary to reduce that forced outage rate. Second, this approach will immediately establish a transitional performance metric. Third, this approach can be easily implemented in time for the 2015/16 Delivery Year.
Finally, the question of cost responsibility and cost recovery should be addressed during the transition period. Specifically, given that the CP product is being procured to ensure greater reliability for a period for which the Base Residual Auctions have been held, it is appropriate to align the incremental cost of the CP product with the reliability benefits to the system or to the grid. Accordingly, the Coalition respectfully submits that since the grid will benefit by virtue of the increased reliability during the transition period, it is appropriate to allocate the incremental costs on the basis of the improved reliability to the grid. One method would be to allocate the costs in the same manner in which the costs for another grid reliability product are allocated: specifically, allocate the incremental cost of the CP product during the transition period to Transmission Customers in the same way in which Reactive Service Costs are allocated and charged. By increasing system security and providing operational certainty for future Delivery Years, the Capacity Performance product would provide reliability benefits similar to Reactive Power Service.

III. The Proposed Penalties Should be Phased-In and Reduced

Under the Proposal, when PJM has declared a Hot Weather or Cold Weather Alert and/or declared a Maximum Emergency Generation Alert, a CP resource must deliver energy in all hours if scheduled by PJM or if self-scheduled. A CP resource will be penalized if it fails to meet that requirement. A Base Capacity generating resource will be subject to penalty for failure to deliver when PJM has declared a Maximum Energy Generation alert during the months from May through October. PJM proposes to apply this additional penalty to Base Capacity resources even though its proposal does not provide for any additional revenues to those resources. The penalty will be calculated as the product of (a) the MW not delivered by a supplier and (b) the applicable Locational Marginal Price (“LMP”). PJM proposes that the total penalty applied to a CP resource for any Delivery Year will not exceed 2.5 times the Delivery Year clearing price credit applicable to the resource for that Delivery Year, and the penalty will not exceed 1.5 times the credit for Base Capacity resources.

The goal of penalties—to incent suppliers to meet their obligations—must be balanced against what should also be a goal of the Proposal, i.e., to improve revenue adequacy so that fuel diversity in the region is maintained. A supplier already faces a significant cost if it fails to deliver energy during peak hours, in the form of both lost opportunity costs and paying for replacement at real-time energy prices to replace the energy not delivered from the day-ahead schedule. Suppliers thus already have strong incentives to meet their obligations. On the other hand, as discussed above, the RPM has not, since its inception, resulted in revenue adequacy for the vast majority of generators in the PJM region. The penalties proposed by PJM result in too great a risk that suppliers’ revenues will be further reduced significantly.

Instead, the Coalition supports several changes to PJM’s proposed penalty structure. First, the Coalition supports change in the manner in which the penalty is calculated, such that the non-performing resource is penalized an amount equal to the product of (a) the MW not delivered by a supplier and (b) the difference between the actual LMP at the relevant node and what the LMP would have been if the resource had been online and delivering energy. Penalizing the resource for the difference in LMP caused by its failure to deliver will more closely align the penalty with the behavior that it is designed to incent.
Second, the total maximum penalty applied to CP resources should be capped at 1.5 times the Delivery Year clearing price credit. PJM’s proposed penalty cap is simply too draconian and will drive resources away from providing the CP product rather than incentivizing them to invest.

Third, PJM should incorporate daily and monthly (or single-outage) penalty stop-loss provisions. Consider the example of a large unit, which experiences a forced outage on June 2 of a Delivery Year that has a significant impact on LMP. This large unit could, without a daily stop loss limit, hit the overall cap on penalties in one day, and incur a penalty of 1.5 times its annual CP revenues. After June 2, this resource will be immune to the “incentives” created by PJM’s proposed penalty structure. There could be an additional 599 Hot or Coal Weather alerts during the remainder of the Delivery Year, but the unit’s capacity compensation would not be affected at all if the unit failed to perform in any other these alert events. A daily stop-loss limit would preserve the financial incentive to perform during these alert events.

A monthly or single-outage penalty limit would mitigate the risk of excessive losses associated with one significant outage during an otherwise excellent performance year. For example, nuclear units, in general, have excellent forced outage rates, but when outages occur, they are typically longer in duration than those for other resources. A cap of the penalty exposure for a single outage would help units quantify the risk associated with providing the CP product, and in so doing would encourage these critical units, to commit to the CP product.

Fourth, PJM should gradually phase-in the penalty structure for CP resources over several years. The capital investments required to improve resource availability will take time to install, and a phase-in will reflect this reality while gradually increasing the performance incentives. The Coalition proposes a three-year phase-in period, beginning with a penalty cap for CP resources during the transition period of 1.2 times the capacity clearing price and gradually increasing each year by 0.1 times the clearing price, starting in 2018/2019, until the penalty reaches 1.5 times the capacity clearing price in 2020/2021.

Finally, committed CP generating units must offer into the PJM Day-Ahead Energy Market with an economic maximum quantity at least as great as the Installed Capacity (“ICAP”) equivalent of the committed Unforced Capacity (“UCAP”) value. A CP resource thus is subject to penalty (for failure to deliver scheduled amounts) up to ICAP. There is no basis to assess penalties based on ICAP when PJM meets its reliability requirements and pays suppliers based on UCAP.

IV. The Proposal Should Specifically Provide that Suppliers Are Not Required to Offer the CP Product

PJM states that “there is an open question from the perspective of market power mitigation as to whether or not there should be a must offer requirement for the CP product.”

8 Proposal at 30.
As PJM explains, however, “with multiple products, market incentives and competitive forces should . . . take over with resources offering in the product area that will result in the most surplus (clearing price minus the cost of providing the product), and assuming the design of the Capacity Performance product works as intended, there should be a sufficient incentive for most, if not all resources to offer the Capacity Performance product.”

The Proposal should make clear that suppliers may choose which capacity products they will offer into the RPM; there should not be a must-offer requirement for the Capacity Performance product. Owners or operators have the most experience with a resource and the best information available about the resource’s current and projected capability and performance. A supplier should have the ability to determine whether it is able to meet the requirements of a particular capacity product, the risks and costs of failing to meet those requirements and, as PJM states, which capacity product will allow the supplier to best maximize revenues. A supplier should not be required to offer a product when it believes that the costs of providing that particular product will outweigh the revenues it will receive. Imposing such a requirement could result in additional premature retirements of units that otherwise are economic, but for which the risks or costs associated with the CP product outweigh the expected benefits.

V. The Proposal Should Adopt More Stringent Qualification Criteria

To qualify as a Capacity Performance resource, an officer of the resource’s owner must certify to PJM that certain criteria are met. Chief among the criteria is the requirement that generation capacity resources be able to operate at their Capacity Performance ICAP value for at least 16 hours per day for three consecutive days throughout the Delivery Year. An officer for a coal or dual-fuel resource will have to certify that it has sufficient on-site or dual-fuel backup capability to meet that requirement. For gas-only resources, an officer will have to certify that the resource can meet the requirement through some combination of arrangements, including firm transportation, firm commodity, storage, balancing agreements, and use of park and loan service.

The Coalition agrees with these requirements as far as they go, but the requirements for gas-only resources to qualify as CP should be expanded. PJM states that it will not mandate how fuel availability is ensured and that “it is assumed” that CP gas-only resources will have appropriate transportation arrangements in place to ensure delivery of fuel when needed. As PJM has noted on several occasions over the past several months, gas-fired resources have experienced the highest outage rates during extreme winter weather events, largely as a result of fuel security issues. In light of this acknowledgment, the lax requirements for CP eligibility for these resources are not commensurate with the challenges these resources have faced securing fuel supply during the winter months.

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9 Id.
10 Id. at 8.
11 Id.
One problem is the assumption that gas-fired generation has similar availability characteristics as baseload coal, nuclear and dual-fuel gas units. Baseload coal and nuclear units generally have significant stocks of on-site fuel, and thus there is little likelihood of a unit outage due to fuel unavailability. Likewise, the on-site stock of fuel oil provides some assurance that a dual-fuel gas unit can operate during periods of system stress. The question here is defining the characteristics of gas supply that are necessary to ensure that a gas-fired-only unit holds similar fuel availability as a baseload coal, nuclear or dual-fuel unit. For example, if the unit owner actually has contracts in place for no-notice firm transportation and no-notice firm storage, as well as reasonable arrangements for commodity supply, then it may be safe to assume that the gas unit actually has access to the fuel necessary to operate during the peak system conditions that are the basis for procuring the CP product. However, there is a difference between an assumption that such arrangements will be in place by the Delivery Year (even if the assumption is based on officer certifications), and actually requiring that such arrangements be locked-in prior to allowing the unit to offer as a CP resource.

Recent experience with Demand Resources participation in RPM is instructive on the issue of differentiating between assumptions (even if based on officer certifications) and ensuring that actual performance is guaranteed at the time that the resource is offered into a capacity auction. Over the past year, PJM has proposed, and FERC has accepted, several changes to the RPM market rules to improve the deliverability of Demand Resources. Prior to these changes, PJM imposed significantly less onerous qualification requirements on Demand Resources compared to generation capacity resources, which allowed providers of Demand Resources to offer exceedingly optimistic offers in the capacity market. PJM, and the rest of PJM’s market participants, eventually discovered that many of these offered MW of load reduction never materialized—a problem exacerbated by the ease with which resources can “buy out” of their capacity obligation in the typically lower-priced Incremental Auctions (as discussed further below). The Coalition is concerned about similarly optimistic offers of the CP product from capacity suppliers including gas-only resources if PJM does not define eligibility for the CP product appropriately.

Accordingly, the Coalition urges PJM to require stronger assurances from gas-only units seeking to participate as CP resources. The objective should be to assure that gas-only resources have the same degree of fuel security and availability as resources with on-site fuel supply, such as nuclear, coal and dual-fuel units. While PJM does not necessarily need to mandate the precise manner in which gas-only resources secure fuel availability, these resources must, at a minimum, have both no notice firm transportation and no notice firm storage, and must be directly interconnected to an interstate pipeline to avoid delivery interruptions to address health and safety issues that are unavoidable with interconnections to a Local Distribution Company (“LDC”). PJM’s proposed penalty structure may discourage overly optimistic participation to some degree, but participating resources will presumably still have the opportunity to buy out of their position in the Incremental Auctions, likely at a much lower price. Thus, the Coalition believes that it is important to set the qualification criteria for gas-fired resources upfront. By requiring resources to make long-term firm fuel arrangements that include no notice firm transportation, no notice firm storage, and interconnection with an interstate pipeline, gas-only resources will be more reluctant to submit overly optimistic or speculative offers that will compromise reliability in the Delivery Year. These qualification criteria should not, however, deter PJM and FERC from appropriately addressing speculative offers, and PJM should be
especially diligent about taking measures to ensure that resources are actually capable of providing the service represented by their offers in RPM.

In that regard, the Coalition recommends that PJM perform an audit of the representations made regarding a suppliers firm natural gas arrangements to assure compliance with those representations. We understand PJM has the right to refer future failure to deliver due to gas deficiencies to FERC Enforcement for review. However, by that time, the impact to the CP auction price will have already been realized with a loss of system reliability and a reduction in the revenues that should have been earned by legitimate capacity suppliers who are enhancing system reliability.

VI. The Proposal Requires Additional Clarification With Respect To Offer Caps

PJM proposes to allow costs associated with ensuring natural gas availability and delivery in a resource’s Avoided Cost Rate (“ACR”). PJM explains that it intends to create a new category of costs for the calculation of ACR or Allowance for Project Investment Recovery (“APIR”) to account for these natural gas services. PJM also proposes to allow resources to include some performance risk, up to a designated threshold level, in the unit’s Market Seller Offer Cap. PJM proposes to base this risk premium on the pool-wide EFORd.

The Coalition supports PJM’s proposal to allow resources to include costs associated with ensuring natural gas availability and delivery in a unit’s ACR, but several questions remain about the calculation of a resource’s Market Seller Offer Cap. For example, PJM should provide further guidance about which costs, and what cost levels, will be deemed appropriate to include in APIR/ACR. This guidance is especially necessary because resources will likely make different types and levels of investments to bring their resources into compliance with the performance standard for CP resources. Moreover, PJM should provide additional guidance on how the Market Monitor will calculate offer caps for resources submitting coupled offers. PJM notes that resources making a coupled offer consisting of a CP offer and a Base Capacity offer would need to offer the CP product at a price that is at least $0.01/MW-day greater than the offer price of the coupled Base Capacity product. PJM does not explain, however, whether such a coupled offer would be subject to separate APIR/ACRs, and thus different Market Seller Offer Caps, for the two products.

The Coalition also has concerns about the adequacy of the risk premium that PJM proposes to allow resources to include in the Market Seller Offer Cap. Basing the risk premium on the average annual pool-wide outage rate is unreasonable considering that CP resources will be evaluated primarily on the most extreme weather days of the year—days with considerably higher average outage rates than the annual average. The Coalition disagrees with PJM’s position that the risk premium should not allow a resource to reflect all of its expected penalty risk in its capacity offer. The Coalition believes that $40/MW-day reflects a reasonable baseline risk premium. That amount is calculated as 800 Hot/Cold Weather hours x $100/MWh x 18 percent forced outage rate/365 days = $40/MW-day. However, each participant should have the ability to price the risk based on their own expectations of market prices and alert durations based on the current expected performance of their own resources at any point in time and justify a higher than $40/MW-day risk premium to the market monitor.
VII. Changes Related to Incremental Auctions in the RPM Should Not Be Postponed

PJM states that changes related to IAs should be postponed until the Proposal is implemented and evaluated. The Coalition disagrees. Speculative bidding in the RPM has been a major issue, and the Coalition agrees with PJM’s view that this behavior is inconsistent with the purposes of the RPM. Through the RPM, PJM should be procuring real, physical, and deliverable capacity products. The RPM is a 3-year forward market to provide market participants with an opportunity to offer new resources in place of existing resources, or to supplement those existing resources. Purely financial bids in the BRA put reliability at risk since there is no assurance that the physical generation that is needed to replace them will be available in the IAs. Moreover, as PJM explained, speculative bidding “suppresses clearing prices[.]”

PJM itself has stated that the Proposal will not address all of the issues that arise from speculative bidding in the RPM. For example, the Proposal will not address some of the most problematic systemic issues that allow the speculative behavior in the RPM to continue, such as the three-IA structure or the 2.5 percent Short-Term Reserve Procurement Target. In fact, if the initial clearing price for CP is higher than for current capacity products, the increased price may increase the level of speculative activity as the financial incentive of the spread between the BRA and IAs could increase. PJM should specifically identify the issues associated with speculative bidding that it believes will be resolved by the Proposal and those that will not, and PJM should make appropriate filings with FERC seeking to resolve all issues associated with speculative bidding in a comprehensive and timely manner.

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13 Id. at 2.