September 17, 2014

Via Electronic Mail
Jim Jablonski, Chair
Enhanced Liaison Committee
PJM Interconnection
955 Jefferson Avenue
Norristown, Pennsylvania, 19403-2497

Enhanced Liaison Committee – Capacity Performance

Re: Comments of the Mid-Atlantic Renewable Energy Coalition to PJM on the Capacity Performance Proposal

Dear Mr. Jablonski and Enhanced Liaison Committee – Capacity Performance Participants:

On August 20, 2014, PJM released a proposal to introduce a new Capacity Performance product as part of its Reliability Pricing Model. In the weeks following, PJM held two meetings to discuss the details of the proposal. The Mid-Atlantic Renewable Energy Coalition (“MAREC”) believes that this is an insufficient period of time to address the market reforms PJM proposes. That said, MAREC and its members appreciate the opportunity to provide the following comments on the Capacity Performance proposal.

Based on the Capacity Performance Proposal, Capacity Performance Availability and Flexibility Requirements, there is no opportunity for renewable energy to participate in the Capacity Performance product. While MAREC understands the importance of maintaining reliability, excluding renewable energy, as well as other generation, from participating in the Capacity Performance product effectively values the capacity benefit of these resources at zero due to the estimated 10 to 15% RTO cap on Base Capacity, Limited DR, and Extended Summer products. This could result in a significant deviation between Performance and Base products, possibly driving the Base product price to zero and the Performance product to extremely high levels, potentially resulting in higher overall costs to load.
However, as demonstrated by actual resource performance during the 2014 Polar Vortex, many renewable resources, especially wind energy, performed well during the event and provide much needed capacity and energy.

While MAREC is not suggesting a specific method by which to value the capacity provided by resources that do not meet the Capacity Performance criteria, we would argue the amount such resources contribute capacity and energy during shortage conditions is greater than zero. By designing a disproportionate multi-product market where the Base Capacity product is oversupplied, there will be a lack of competition between the resource categories. Further, the RTO cap needs to be critically examined by stakeholders (if the multi-product market exists). MAREC would prefer a construct that clearly defines the incentives and penalties associated with providing capacity: that does not preclude certain resources from participation: allows companies to evaluate the risk associated with offering capacity; and provides offers reflective of such risks.

MAREC does not agree with the proposed changes that would in effect value the capacity benefits of wind at zero. However, to the extent that PJM will not allow renewable resources, along with other resources, to participate in the Capacity Performance product, MAREC would like to see the Tariff provisions and Manuals allow for the aggregation of various resource types to achieve the Capacity Performance Availability and Flexibility Requirements. While a single renewable resource, demand response resource, or energy storage resource may not be able to meet the requirements on its own under PJM’s proposal, it is entirely possible that a combination of such resources could meet the requirements and therefore should be able to offer its aggregate capacity in as Capacity Performance.

In the Base Capacity Resource Penalties section of the Capacity Performance Proposal paper, PJM states, “For Base Capacity generation resources, PJM proposes to apply the hourly energy penalty described above for non-delivery, but limited to those periods when PJM has loaded Maximum Generation or any more severe emergency procedure during the months of May through October.” MAREC is worried that this is in reference to this statement in the prior section, “PJM proposes that the penalty apply to the lower of the quantity of MWs scheduled by PJM, or the unit’s ICAP equivalent of the Capacity Performance committed UCAP value”. For renewable resources, like wind, that utilize a default or calculated capacity factor to determine the UCAP value, it does not make sense to evaluate such resources based on their ICAP equivalent. Consider a new 100 MW ICAP wind farm that uses the default capacity factor value of 13.0%, for a UCAP of 13.0 MW. The 13.0% represents a reasonable approximation of the amount of capacity to expect in any given hour during the peak. Therefore, it is unreasonable to expect this type of resource to provide 100 MW of energy in a specific hour or set of hours. MAREC believes that it would be just and reasonable to evaluate such renewable resources for performance based on the cleared UCAP value. PJM generally addresses this concern in its posted response to FAQ’s stating, “PJM further clarifies that the hourly energy penalty would not apply to intermittent resources (wind and solar) since their capacity value is determined based upon actual output historically achieved during peak periods. Such resources would be eligible to offer only as Base Capacity Resources.” However, we felt it prudent to include this comment to ensure the final set of rules appropriately accounts for such intermittent resources.
MAREC is also concerned that the Non-Performance Penalty Offset provision of the Capacity Performance Proposal is unduly preferential toward companies that have portfolios with many generation assets. Resources that do not clear for capacity will likely come online during times when PJM is short in order to profit from elevated LMPs. However, MAREC does not believe that such resources should also receive payments for capacity by way of offsets to penalties. Therefore, MAREC would support striking this provision from the Capacity Performance Proposal.

MAREC again expresses its appreciation for the opportunity to provide comments on PJM’s Capacity Performance Proposal.

Sincerely,

Bruce H. Burcat
Executive Director
Mid-Atlantic Renewable Energy Coalition

cc:   Terry Boston, President and CEO
      David Anders