Comments of North Carolina Electric Membership Corporation
Via Email

September 17, 2014

Mr. Andrew Ott
Executive Vice President – Markets
PJM Interconnection, L.L.C.
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Dear Andy:

Thank you for the opportunity to comment on PJM’s Capacity Performance initiative. The North Carolina Membership Corporation (NCEMC) appreciates the work that PJM has accomplished in order to comply with the PJM Board’s directive to develop a Capacity Performance product. NCEMC also appreciates that changes to the Resource Planning Model (RPM) capacity construct are very contentious and unlikely to result in consensus, leading PJM to use the Enhanced Liaison Committee process. However, NCEMC is very concerned at the extent of the changes that are being considered in such a short time frame. These concerns are expressed in the comments of the PJM Public Power Coalition (PPC), of which NCEMC is a member, and will not be repeated here. Likewise, NCEMC has serious concerns regarding the transition period and has joined in comments on that topic as well. These comments will therefore focus mainly on the issues that are specific to NCEMC as a Load Serving Entity (LSE) in the unique situation of having capacity resources and load both inside and outside of PJM.

As PJM continues to work toward finalizing its Capacity Performance Proposal for release on October 7th, NCEMC asks that PJM resolve the following issues directly or ideally through stakeholder engagement:

External Resources
1. Pseudo Ties – PJM has proposed a requirement that external capacity resources have pseudo ties in place in order to qualify as Capacity Performance for the Capacity Performance Incremental Auctions. The pseudo tie requirement is in place for the 17/18 BRA which provides adequate time to implement those pseudo ties. However, because of the short timeframe before the Capacity Performance incremental auction for the 2015/2016 delivery year, there is insufficient time for generation resources outside of PJM to complete the procedures necessary to complete a pseudo tie. In some instances, work needs to be done by PJM which cannot be completed in this timeframe.

As background, in May of 2014 PJM adopted a Capacity Import Limit for external generation bidding into the BRA. External generators could seek an exemption for the capacity import limit by meeting certain requirements including establishing a pseudo tie with PJM. Close to 4,800 MW of generation was granted an exemption at the May 2014 BRA. Assuming that the 4,525 MW of generation that cleared is still in the early stages of pseudo tie implementation, it is unlikely that this significant amount of capacity will be able to participate as a Capacity Performance Resource.
To alleviate this barrier PJM should allow external generation resources to bid into the Capacity Performance Product transition period auction as long as the unit has submitted a special case document along with a pseudo tie request prior to a date certain. This date should be worked out with stakeholders to allow the maximum amount of external generation to participate in the incremental auction while ensuring that enough time is allowed to get the pseudo ties in place before the start of the delivery year. This allowance for external resources will help to ensure that more resources are available to participate in the incremental auctions during the transition period.

2. **Performance Penalty Offset** – Under PJM’s proposed rules, external units that are not part of RPM and are not internal to PJM are not allowed to be used as non-performance penalty offset energy.

Not allowing companies who have load in PJM to use their external generation to offset the non-performance penalty could impose a significant burden on companies that operate both inside and outside of PJM. One logical solution to this problem may be a requirement for non-RPM external resources to be a Designated Network Resource in PJM to qualify to provide non-performance penalty offset energy.

**Penalties**

3. **Environmentally Limited Resources** – In order to qualify as Performance Capacity, it is NCEMC’s understanding that a generating unit cannot have an environmental limit that prohibits dispatch requests during HWA, CWA, and max gen events which exceed 10% for a delivery year. However, once an environmentally constrained unit is accepted as Capacity Performance, that unit when called upon is subject to a penalty even if it does not run in order to avoid exceeding its environmental limit.

PJM should change this requirement so that environmentally constrained units will not be subject to the performance penalty once the unit reaches its specific environmental limit. PJM selected a 10% limit for dispatch because data from previous years showed that a 10% dispatch was sufficient to meet the performance requirements for Capacity Performance. So, allowing environmentally limited units to run up to their limit, which will be 10% or greater, should allow more of these units to participate as Capacity Performance. Because many of these units have environmental limits over 10% there is an additional buffer for those units to dispatch for extraordinary weather events.

If PJM requires environmentally constrained units to be subject to unlimited run time with a penalty for non-performance many of these units may choose not to bid into the auction for fear of the penalties they may incur. This could limit the number of units participating in Capacity Performance, raise prices, and may prevent PJM from achieving its desired 85% goal. In order to allow the maximum participation in Capacity Performance PJM should not place a penalty on environmentally constrained units once the unit reaches its own specific environmental limit.

4. **Outside Management Control (OMC)** – The Capacity Performance whitepaper states that OMC outages will be excluded from the Capacity Performance penalty for both Base and Capacity Performance Resources if they are due to electrical connectivity issues (i.e. transmission outages). However, it appears that OMC outages due to electrical connectivity issues will affect EFORd. This is a material change from prior RPM rules.
PJM should exclude OMC electrical connectivity events from EFORD. Generators have no control over transmission outages and should not be penalized when they occur. Penalizing a generator for a transmission outage does not provide any incentive for the generator to avoid the outage. Generators simply have no control over the transmission system and have little to no notice of outages, and as already noted, it is beyond their control to affect transmission outages.

In addition, many transmission maintenance outages are completed during off-peak periods; however, these outages still create a forced outage for generators during the year. This has no impact on the ability for a generator to perform during on-peak periods, and therefore should not impact the amount of capacity that can be offered in an auction due to increased EFORD resulting from such transmission outages.

5. **Base Capacity Penalties** – PJM is proposing to change the non-performance penalty for Base Capacity, which will be capped at 1.5 times the capacity payment. This change is unwarranted. The new Capacity Performance product is intended to provide additional reliability to PJM. In exchange for undertaking additional requirements, generators that participate in Capacity Performance will receive additional capacity payments intended to compensate the generators for their additional risk.

Base capacity on the other hand is remaining the same. There are no changes to its parameters, it is not providing increased reliability, and is not being compensated at an increased level. Because the nature of Base Capacity is remaining the same the penalties for Base Capacity should also remain the same. Any increased penalties should be limited to the new Capacity Performance product.

Furthermore, it would be unfair to impose these increased penalties on generators for auctions that have already cleared. Generators bid into these completed auctions with an understanding of the risk that they were going to undertake. PJM should not be permitted to change the risk parameters for these generators at a later date by increasing penalties for non-performance. Any after the fact penalty charges would be unjust without additional compensation to affected generators.

6. **Capacity Performance Penalties** – The Capacity Performance penalty cap of 2.5 times the capacity payment does not factor in penalties for capacity deficiencies caused by EFORD changes in future years. This failure to account for EFORD may result in double penalties. A generator may incur a non-performance penalty in current delivery year and a separate capacity shortfall penalty attributable to EFORD in future years, causing the total penalty to exceed the 2.5 times capacity payment cap.

During the delivery year penalties will be capped at 2.5 times the capacity payment. However, non-performance will also affect the units EFORD in future years. This increase in EFORD will require the generator to procure additional capacity in future years to make up for the capacity shortfall. This procurement of additional capacity will in effect cause the penalty due to non-performance to increase to over 2.5 times the capacity payment. PJM could alleviate this problem by factoring the EFORD capacity shortfall into the 2.5 times cap. The capacity prices for future years will already be known so PJM can easily calculate the future EFORD capacity shortfall amount. The capacity cap payment in the current year could then be lowered by this shortfall amount ensuring that the cap on non-performance is really 2.5 times the capacity payment.
Other Issues

7. **Base Capacity Limit** – PJM is proposing a 15% limit on the amount of Base Capacity that is secured through the BRA. This limit could result in a surplus of generators that are physically unable to qualify as Capacity Performance resources participating in the Base Capacity auction, in turn causing capacity used traditionally as self-supply to not clear the BRA. As a result, LSEs may no longer be able to meet their capacity needs with their own generation and may have to pay twice for capacity.

Furthermore, self-supply for LSEs has been traditionally guaranteed under Section 5.2, Attachment DD of the PJM tariff to clear as a price taker. PJM must carefully consider the impact the proposed rules will have on the right of LSEs to self-supply their load with their own generation, and should ensure that those rights are maintained.

8. **One Hour Notification** – In order to qualify as Capacity Performance, PJM requires that Intraday Cycling Asset Class be subject to a start up and notification time of less than or equal to one hour. However, many Local Distribution Companies (LDCs) require a 1 hour minimum notification time in addition to the nomination lead times required to coordinate supply from interstate pipelines to the LDC pipelines. Intraday notification lead times are even longer due to LDC restrictions, regardless of the existence of firm transport, supply agreements, and storage. So, adherence to the one hour requirement might be impossible until the issues surrounding gas/electric coordination are resolved.

PJM should allow resources to retain the use of a staggered notification process (set a cascading set of notification times allowing the CT/CC to get a nomination in for one of the gas cycles stemming from whenever time PJM asked the unit to be on line). PJM should also engage stakeholders and develop more realistic minimum notification requirements given the current state of the natural gas market and the rules that vary by LDC. Once issues around gas/electric coordination are resolved, PJM can revisit this requirement and adjust the notification timeframes to coincide with the new gas/electric standards.

NCEMC appreciates the opportunity to provide comments. Given the drastic changes that are being contemplated NCEMC hopes that PJM will continue to engage stakeholders throughout this process and not rush to a final solution. Capacity Performance will cost load billions of dollars and change the way capacity operates in the market. Changes of this magnitude need to be well thought out and made only after thorough consideration of all the costs and impacts associated with this new form of capacity.

Sincerely,

signed
Michael Burnette
Senior Vice President and Chief Operating Officer
North Carolina Electric Membership Corporation