On behalf of the members of the PJM Public Power Coalition, we offer these comments on PJM’s Capacity Performance proposal, based on the draft white paper and presentations made by PJM staff.

As public power entities committed to providing reliable, affordable electricity to our customers, we appreciate PJM’s recognition that the events of last January must not be repeated. Like PJM, when a vast number of units failed to show up when they were needed most, our members were left wondering what performance was expected from capacity units, and we welcomed the effort to make that more clear. Having said that, however, we must recognize that the system, while stressed, did perform.

We also appreciated the extensive education that was already underway on how natural gas generation interacts with its fuel supply, the criticality of timing between the electric and gas markets, and the constraints on the gas system that result in inflexibility for generating units during extreme weather events. It helped provide clarity on one of the primary causes of both unit outages and high uplift costs.

Given the discussions prior to the production of the white paper, we expected a proposal that would address the issues of fuel procurement and flexibility, and of actual generating unit performance (separate from fuel supply issues) in extreme weather. We expected a proposal that would find a way to get the forced outage rate closer to its historic average during extreme events. We understood there would likely be additional costs for capital improvements and infrastructure that could be required, and were prepared to discuss those costs to understand what level of additional commitment would be reasonable.

Instead, PJM proposed a fundamental restructuring of RPM, to be done in record-breaking time. It took the approach that in order to meet those worst days of the year, the vast majority of capacity would need to meet stringent new performance requirements just in order to be eligible, and then further stringent requirements that would apply during the operating day. In this new construct, the values of storage and demand response are further diminished, and intermittent resources, such as renewables, are assumed away. A proposed procurement of the new Capacity Performance (CP) product as at least 85% of the overall mix leaves a very limited space for generation that cannot, or chooses (for risk or other reasons) not to, meet the new requirements.
We appreciate PJM’s faith in the power of penalties to drive compliance. In many cases, it will be possible for units to make appropriate arrangements and investments that will help them to avoid those penalties, actually providing the performance we’re paying for, but as entities that serve load, we also recognize that those efforts to avoid very high penalties will be reflected back to us as costs in one way or another. Absent changes to inter- and intra-day scheduling rules to recognize the gas/electric mismatch, the proposed performance penalties are untenable.

We understand but do not agree with the reasoning that led PJM to determine that non-CP resources would only make up 15% of capacity. This approach presents several significant challenges. We question whether there is sufficient generation that is or can be made capable of meeting the CP criteria in order for there to be an effective, competitive market within that category. Indeed, PJM doesn’t know how much existing capacity can meet the CP criteria. While units will be able to make offers that reflect their increased costs, and will also likely find a way to reflect at least some portion of the penalty risk in their offers, we worry that the extent of the requirement is such that very few qualifying units will fail to clear, presenting very little competitive incentive for companies to reduce their costs of compliance or make competitive bidding decisions.

This also presents a concern with regard to the remaining resources. Those that cannot meet the new requirements will be competing for a very small block of remaining available capacity, currently set at 15%, which will almost certainly bind, reducing payments to those resources and possibly driving capable generation and demand response from the capacity market entirely. Intermittent resources and others that, by PJM’s new definition, cannot serve as Capacity Performance will find little or no incentive for development. Overall, a number of capacity suppliers that did perform during the events of January 2014 (including wind resources and demand response) may find themselves excluded from the market because of the poor performance of traditional resources. This would be an unfortunate unintended consequence.

We also share concerns that are being voiced by others with regard to a transition to this new capacity construct. The transition mechanism remains almost entirely undescribed, and our members have significant questions about how existing commitments will be treated, how PJM will determine levels of Capacity Performance it will procure, what schedule will apply, and how we will deal with what is effectively retroactive ratemaking. We do not expect the results of any incremental auctions to be on the scale of normal, minor changes in the cost of capacity that occur between a BRA and a delivery year, and have no understanding of what the impacts to our customers would be.

That can be said of the entire proposal. To date, we have seen no analysis on how many units may be eligible or easily upgraded to the Capacity Performance product. In fact, PJM has said they lack the information needed to provide that analysis, as well as any sense of what necessary additional investments would cost. In combination with
proposed changes to the VRR curve, we are faced with what are almost certainly
dramatic increases in the cost of capacity, but are wholly unable to estimate even the
scale of those increases from the information that we have been presented.

The Public Power Coalition is predominantly comprised of not-for-profit load serving
entities. We have an obligation to serve and are willing to pay a fair price for reliable
service to keep the lights on. Our concern here is that we will throw money into a
solution that could very well not make us any better off from a reliability or cost
perspective.

The Public Power Coalition understands and supports the need to ensure that capacity
resources actually deliver energy when they are most needed. We also support using
effective markets to provide those resources. We support efforts to ensure that
suppliers are offering in a way that reflects secure fuel supplies and provides the
flexibility PJM needs for efficient, reliable operations. However, we are very concerned
that the current proposal is on such an expedited timeframe that the market
implications, the overall costs, and the unintended consequences of what is nothing less
than a complete overhaul of the Reliability Pricing Model will not have been addressed
prior to a filing at FERC. We ask PJM to make every effort, and take the necessary time,
to provide an understanding of how suppliers will respond to this new construct, what
the cost impacts could be, and what will happen to those resources that find they
cannot participate in the capacity markets.