Today’s capacity and energy market revenues are insufficient to incentivize the necessary investments to maintain reliability. Adding penalties that far exceed any additional upside will not fix PJM’s reliability problem. PJM’s CP proposal as drafted proposes penalties that are large and fairly clear, but compensation appears small and vague. PJM’s CP proposal will fail unless the proper balance between penalty and reward can be achieved.

1. The proposed penalty cap of 2.5x capacity revenues for CP and 1.5x capacity revenues for Base capacity is excessive. PJM fails to acknowledge that simply buying back your day ahead commitment at much higher real time prices is already a substantial penalty, and PJM’s proposal effectively doubles it. The cap should be lowered to 2.0x for CP, and 1.0x for Base, and any forfeited energy revenues should be added to the penalties paid for the purpose of satisfying the penalty cap.

2. PJM allows us to sell the UCAP value of our generation into the capacity market, but then requires us to offer the higher ICAP equivalent amount of the UCAP value into the day ahead energy market. Ultimately it is the ICAP value that we’ll be penalized on if we fail to perform. Under the current construct, performance to the UCAP value is expected. If under the CP construct we are expected to perform to the ICAP value, then we should be able to sell the ICAP value into RPM. Or, we should not be penalized until the output of our resource falls below its UCAP value rather than its ICAP value.

3. There should not be a must offer requirement for the CP product, without the ability to offer with the appropriate risk premium. The consequences of failing to perform are great, and so the risk of failing to perform must be carefully managed. This is difficult to do, and impossible to do at offer caps based on targeted forced outage rates as PJM proposes, rather than actual forced outage rates. If one cannot include a full risk premium in one’s offer, then there should be no must offer requirement. PJM fails to recognize that their proposed risk premium is based on a targeted forced outage rate and expected outcomes, but when a generator fails to perform the consequences can be catastrophic. Resource owners must be able to mitigate this catastrophic risk.

4. PJM should permit the ability to satisfy non-performance of CP resources using resources that are not committed for CP. For example, if a CP resource fails to deliver during a hot or cold weather alert when the system is not in a Max E condition or worse, then any Base capacity or totally uncommitted resource producing energy should be able to satisfy its penalty. If a CP resource or a Base resource fails during a Max E condition or worse, any uncommitted resource that is producing energy should be able to satisfy its penalty. The Base capacity and uncommitted capacity were not paid a CP premium and therefore are not required to deliver under the same conditions as CP. Further, by permitting uncommitted resources to satisfy CP
penalties, PJM would incentivize performance during severe conditions from uncommitted resources that may not be able to qualify for CP. Ultimately, a market could develop for uncommitted resources to satisfy performance penalties which would further incentivize performance by non-CP resources during critical periods.

5. PJM should release details of how they plan to clear the CP product in 15/16 through 17/18 as soon as possible. In particular, they should explain how they will handle the 164,000 MW of base capacity that already cleared, since they will need substantially less base capacity, but they will still need 140,000 MW of CP capacity. How will they handle base capacity that has already cleared in RPM, but does not wish to sell CP?

6. There must be a transition period for the penalties. Cash starved resources cannot improve performance instantly, but additional compensation must begin now and there must be some expectation that it will continue long enough for the investment to be recovered, if additional investment to improve performance is to be expected. Since performance cannot be improved instantly, then a transition period is necessary before full penalties can be applied.

7. DR and EE capacity products are illegal, unjust and unreasonable in any form. As is the case for DR payments in PJM’s energy markets, payments for DR and EE under PJM’s capacity markets are beyond the jurisdiction, power and authority of PJM to propose and the FERC to approve. See EPSA v. FERC.

8. PJM should work toward two capacity products, CP and Base, and eliminate Extended Summer and Limited DR.