PJM Capacity Performance Proposal
Comments
Retail Energy Supply Association
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Via dedicated email address capacityperformance@pjm.com

PJM Transition Auction Mechanism

The Retail Energy Supply Association (RESA) appreciates the opportunity to submit comments in response to the PJM whitepaper on the proposed Capacity Performance Proposal. RESA is a broad and diverse group of twenty-one retail energy suppliers who share the common vision that competitive retail energy markets deliver a more efficient, customer-oriented outcome than a regulated utility structure. Many RESA members are Load Serving Entities (LSEs) in PJM and have a direct and significant interest in the outcome of the Capacity Performance Proposal discussion.

RESA appreciates that one of PJM’s primary responsibilities is maintaining electricity reliability across its multi-state footprint. Similar to its stance on competitive retail markets, RESA believes that competitive wholesale markets deliver the most efficient mechanism to maintain reliability standards that support safe communities and economic vitality. However, the manner in which PJM structures its market rules, implements its market products, and manages its reliability mandates can have a direct impact on the financial and operational viability of retail supplier LSEs in PJM. Often times, this impact is especially acute for retail suppliers in comparison to traditional utility LSEs given the manner in which retail suppliers contract directly with customers for retail supply and the limited options for addressing major changes to regulations that occur in the midst of those contract terms. Retail suppliers do not have cost recovery mechanisms like traditional utilities. Indeed, some states prohibit suppliers from imposing surcharges or additional fees on residential customers served under fixed price contracts. One need only look to the fallout from the “Polar Vortex” energy price and uplift cost spikes to see an example of retail suppliers bearing the brunt of the political and customer backlash that occurred as a result of increased wholesale costs.

To alleviate the impact of regulatory changes on retail supply contracts, RESA often advocates that regulatory changes, if necessary, be implemented on a two to three year forward basis. Retail contracts typically vary in length and it is not uncommon for them to extend 1, 2, 3 or more years. Many of these contracts provide fixed price, risk managed products. Forward implementation of new regulations allows retail suppliers to properly factor the resulting charges into our contract pricing and generally avoids large-scale impacts on existing retail contracts. PJM’s Capacity Performance Proposal deviates from the three year forward model in proposing a Transition Auction Mechanism (Transition) for delivery years 2015/2016, 2016/2017, and 2017/2018. The majority of retail electricity suppliers established pricing in existing customer
contracts, many of which have delivery periods that include the Transition years, based on the pricing in the Base Residual Auction for the Transition years, with no foreseeable expectation that PJM would replace already purchased capacity with a new Capacity Performance product.

The Transition proposal is raising a significant amount of concern in the retail supplier LSE community. This concern arises not only from the probability that retail suppliers will be responsible for managing existing contract and price exposure in light of the increased capacity costs associated with the Transition but also from the almost complete lack of consideration the Transition receives in the whitepaper itself. To date, there has been almost no discussion of or attention on the Transition or its impact on retail supplier LSEs. This lack of consideration seems incongruous with the magnitude of the potential impact the Transition will have on retail supplier LSEs and, ultimately, their customers. RESA asks that PJM remedy this seeming oversight, develop more detail around the Transition, and explicitly add the subject to the Stakeholder discussion. RESA believes that the following topics should, at a minimum, be addressed regarding the Transition:

1. PJM should investigate cost attribution methodologies that would help mitigate impacts on retail supplier LSEs while maintaining market and cost causation fundamentals.
2. PJM should investigate opportunities to assess and label the costs associated with the Transition in a way that clearly and transparently conveys that those costs are part of a new regulatory structure and not intrinsic to capacity costs as they were structured prior to the Capacity Performance Proposal.
3. PJM should investigate opportunities to educate state legislators and public utility commissioners within its footprint on the structure, benefits, rationale, and need behind the Capacity Performance Proposal and Transition – with clear indication that the Transition-related costs result from a new, unanticipated regulatory construct.

In conclusion, RESA recognizes PJM’s need to implement market structures that properly incentivize and guarantee electricity reliability. If PJM does decide to move forward with this proposal, RESA asks that the transition issues identified above be addressed. While RESA understands that retail customer rate attribution is largely a state jurisdictional issue, we believe that PJM can play a role in designing market structures that maintain reliability but also facilitate the ongoing viability of competitive retail markets within the PJM footprint. RESA believes that one of the most important aspects of the Transition in relation to this ongoing viability is transparency. The more PJM can assure LSE’s that, at the very least, any Transition charges will be clear, discrete, and transparent the better RESA and its members will be able to work with our state policymakers to try and mitigate the impacts it may have on our markets and our customers. Transparency, along with appropriate cost attribution and education are key transition issues that RESA asks PJM to address.