COMMENTS OF ROCKLAND ELECTRIC COMPANY ON PJM’S CAPACITY PERFORMANCE PROPOSAL

September 17, 2014

Rockland Electric Company (Rockland) submits these comments in response to PJM Interconnection, L. L. C. Staff’s (“PJM Staff”) Capacity Performance (“CP”) proposal that was provided in a whitepaper issued on August 20th 2014. In its whitepaper, Staff proposes an enhanced CP product to ensure ongoing reliability of the grid. Rockland appreciates the opportunity to provide these comments and expects that PJM will continue to deliberate how to best address reliability concerns and whether or not to move forward with Staff’s CP proposal.

1. The CP Proposal and Associated Cost to Consumers Has Not Been Justified

Rockland understands and supports the need to examine the drivers behind the poor generator performance and cold weather challenges that occurred in January 2014. The high rate of forced outages underscores the need for resources that can perform under extreme weather conditions. But, Rockland is very concerned about the CP proposal because it reaches too far by proposing a high-cost product that will hurt customers when there are smaller, more targeted changes that could be made to enhance performance.

While the CP requirements are expected to affect the vast majority of capacity resources, the problem they purport to address may be more narrow and related predominantly to fuel availability and facility weatherization. Before considering proceeding with CP, PJM Staff should explain why it needs to completely redesign its market when the higher level of forced outages can be attributed to a small number of causes that can each be addressed without significant cost.

In particular, PJM Staff should examine alternative solutions such as increasing penalties for non-performance (e.g., a “pay for performance” approach akin to ISO-NE’s), which could potentially achieve the same outcomes without imposing a significant cost increase. Rockland’s understanding is that under the CP proposal, the vast majority of capacity resources will need to perform flawlessly during Cold and Hot Weather Alerts as well as Max Gen Emergencies. Many resources will be unable to meet these performance requirements, reducing supplies, or will build the cost of expected penalties into their capacity auction bids, resulting in significantly increased capacity costs without a commensurate increase in generator performance and system reliability. The cost impacts of the CP must be modeled so that market participants can weigh its net benefits, and the reliability gained must exceed the increased costs.

PJM Staff should independently and transparently evaluate the potential effectiveness, including cost-effectiveness, of the CP proposal and alternative approaches to estimate
the potential customer impacts of all options both with and without the other capacity market changes that PJM Staff is proposing. Rockland believes that this analysis, along with detailed examination of alternative, more targeted solutions should be the focus of stakeholder discussions going forward.

2. **PJM Staff CP Proposal Will Not Necessarily Improve Performance**

Despite its potentially high cost, it is not clear that the CP product will improve performance. Beyond an officer certification, participants are not required to take any particular physical steps to improve performance, like filling on-site oil tanks, procuring firm gas transportation, or weatherizing their facilities. PJM Staff should consider adopting more specific physical standards and develop procedures to verify compliance. At a minimum, PJM should require participating resources to submit detailed information about their fuel arrangements and weatherization steps to avoid surprises and gauge the effectiveness of different approaches going forward.

PJM Staff’s proposal effectively would leave capacity resources with two options: extremely high performance requirements with high compensation and high penalties, or a low performance product with much lower compensation and lower performance penalties. Limiting suppliers to such extreme choices may not be the best approach. During the cold weather, in particular, capacity reserves are generally high. PJM should investigate whether it makes sense to offer additional products with performance requirements and compensation between the CP resources and Base Capacity.

3. **PJM Staff Failed to Consider the Combined Effect of the PJM Board Directive on the Triennial Reset and the Adoption of CP as Currently Proposed**

Rockland is concerned about the many changes under consideration to the capacity market. As such, it is critical that these changes be understood not only in a vacuum, but also in combination. Since PJM is now moving forward with its change to the Variable Resource Requirement (VRR) curve, PJM Staff should model a scenario where the VRR curve change has been implemented to identify its effect. The model should reflect the combined effect of the PJM board directive on the triennial reset and the adoption of CP as currently proposed. Without such modeling, stakeholders will not be able to evaluate the cost-effectiveness of the CP proposal or alternative approaches.

4. **PJM Staff Failed to Explain the Basis for CP Requirements**

Although Rockland has grave concerns about the cost and overall effectiveness of the CP proposal, should PJM Staff choose to move ahead with the CP proposal through the Enhanced Liaison Committee process, Rockland offers the following comments on several technical points of the CP proposal:
a. Assuming that all Base Capacity during the winter peak day will be in an outage is a misplaced and invalid assumption. Energy prices will be an incentive for base capacity’s availability during peak periods, which will drive these resources to participate. Historical outage rates are also available and can be used as the basis for a more sophisticated analysis of a need for a capacity performance product.

b. PJM Staff has also failed to adequately explain why it would not adjust its IRM to reflect performance improvements that it expects to realize as a result of creating the CP product. Although PJM Staff has highlighted inadequacies in the current IRM process, it has not explained why those deficiencies justify ignoring potential improvements that should be made going forward. If PJM Staff is not confident that capacity performance will improve, it should reconsider whether it is appropriate to increase consumer costs in anticipation of such improvements, which could have a more short-term impact.

c. Regarding the requirements for Demand Response (DR) under the new CP product, where PJM creates categories for base capacity, intermediate and real-time capacity and defines parameters for them, it should consider creating some flexibility in the parameters used to determine the qualifying features of DR based on its physical characteristics, such as available run-time. The current proposal is structured such that DR is potentially largely ineligible to be a CP resource due to the 16 hour/day requirement.

d. On the design of the product, PJM Staff has failed to fully explain the basis for its requirement that most CP resources be able to perform for the “16 hours for 3 consecutive days” standard. PJM needs to provide a technical basis to recommend that amount.

5. Other Clarifying Questions

In addition to the comments above, Rockland seeks clarification on the following issues:

1. Has PJM examined the potential for additional gradations of capacity to more precisely match the expected load duration curve?
2. What penalties and/or costs apply to a Capacity Performance resource that takes a forced outage during periods when Hot or Cold Weather Alerts and Max Emergency Generation Alert are not in effect?
3. What is the detailed procedure by which PJM will determine how much non-CP capacity will be permitted?
Rockland appreciates the opportunity to provide input on PJM Staff’s CP proposal. We look forward to working through the Enhanced Liaison Committee process with PJM, its Members and its stakeholders to thoroughly and transparently evaluate the potential effectiveness, including cost-effectiveness, of the CP proposal and alternative approaches to best ensure the ongoing reliability of the PJM Interconnection.