

---

October 1, 2018

**VIA ELECTRONIC DELIVERY**

The PJM Board of Managers  
c/o Dr. Ake Almgren, Ph.D., Chairman  
PJM Interconnection LLC  
PO Box 1525  
Southeastern, PA 19399-1525

Re: **PJM Market Competitiveness**

---

Dear Chairman Almgren and PJM Board of Managers:

We, PJM Industrial Customer Coalition, Delaware Division of the Public Advocate, Office of the People's Counsel for the District of Columbia, Illinois Citizens Utility Board, Maryland Office of the People' Counsel, New Jersey Division of Rate Counsel, Office of the Ohio Consumers' Counsel, and the West Virginia Consumer Advocate Division (collectively "Joint Customer Coalition"), seek to provide a customer-oriented perspective on the important Quadrennial Review decision before you at your upcoming Board meetings. PJM depends on competitive market-oriented structures to produce just and reasonable rates for load served within the PJM footprint. Unfortunately, we have grave reservations that certain capacity-related proposals under consideration will harm the ability of PJM's capacity market to produce just and reasonable results. These capacity market changes must also be viewed in concert with other changes being pursued by PJM in the energy market, including proposed changes to variable operations and maintenance payments and multiple energy price formation initiatives, all of which would increase costs for customers.

Stakeholder votes at the September 27, 2018, Markets and Reliability Committee on the Balancing Ratio and Quadrennial Review favored proposals that would inflate key assumptions used in PJM's capacity markets – and those representing load interests and competitive markets

stood out in stark contrast. By this letter, the Joint Customer Coalition respectfully requests that the Board decisions with respect to the Quadrennial Review recognize the interplay between the Quadrennial Review and Market Seller Offer Caps and the role these decisions may have in contributing to capacity market prices that may be higher than “just and reasonable” and thus undermining the competitiveness of the market.

As you know, the Independent Market Monitor (“IMM”) found PJM’s most recent Base Residual Auction (“BRA”) results to be “non-competitive.”<sup>1</sup> In particular, the IMM noted “serious” market structure and design issues leading to “participant behavior which was not competitive, specifically offers which exceeded the competitive level.”<sup>2</sup> The effect of this non-competitive behavior increased market revenues from \$8,070,050,631 to \$9,300,877,106 – a cost to consumers of more than \$1.2 billion.<sup>3</sup>

Several capacity-related proposals have worked through the PJM stakeholder process, including the Tariff-required Quadrennial Review. These work efforts have unfortunately occurred individually within their own silos. Customers have serious reservations that these discrete work efforts, when viewed together, will inflate capacity costs for customers and result in capacity commitments beyond the levels necessary for reliability. Of particular note, the Joint Customer Coalition seeks to ensure that the Board is sensitive to the connection between maintaining a similar approach to calculating the Balancing Ratio (*i.e.*, “B”) and an unreasonably high Net Cost of New Entry being determined within the Quadrennial Review process. Taking an

---

<sup>1</sup> Monitoring Analytics, LLC, *State of the Market Report for PJM, 2<sup>nd</sup> Quarter 2018*, at 231 (August 9, 2018).

<sup>2</sup> *Id.*

<sup>3</sup> Monitoring Analytics, LLC, *Analysis of the 2021/2022 RMP Base Residual Auction: Revised*, at Table 1: Scenario Summary of RPM Revenue: 2021/2022 RMP Base Residual Auction (Aug. 24, 2018).

unduly conservative approach to calculating the Balancing Ratio and the Net Cost of New Entry will lead to an overstated Market Seller Offer Cap (*i.e.*, Net CONE x B) that maintains the unrealistic assumption of 30 hours of Performance Assessment Hours. As such, Capacity Market Sellers would be afforded an inflated “safe harbor” in their bidding strategies that simply cannot align with competitive market principles. Of particular note:

- Proposed changes to the calculation of the Balancing Ratio will effectively keep the market seller offer cap artificially high, enabling market participants in constrained Locational Deliverability Areas (“LDAs”) to engage in aggressive bidding tactics without adding significantly to reliability imperatives.
- Three of the proposals offered for the Quadrennial Review differ in significant ways from the recommendations of the Brattle Group, including with respect to the choice of reference resource, and, in the case of one proposal, including a one-percent left shift of the variable resource requirement curve.

Each of these proposals offered to be responsive to the Quadrennial Review affects the calculation of Net CONE \*B at a time the existing formula has resulted in significantly higher capacity market prices in some zones as evidenced in the most recent BRA. To the extent the Quadrennial Review proposals increase Net CONE \*B beyond that supported by current and future market conditions, the impact of potential market power exercise on customers is increased by inflating the “safe harbor” for Market Sellers.

In your deliberations, we respectfully ask that you carefully consider proposals offered by the IMM and the Office of the People’s Counsel for the District of Columbia (“DC OPC”); both of which had the support not only of the End Use Customer sector but stakeholders in other sectors concerned about market competitiveness. The DC OPC proposal closely follows the

recommendations of the Brattle Group, including the use of combined cycle natural gas generation – the type of generation overwhelmingly being deployed in the PJM territory – as the reference resource technology. Both the DC OPC and IMM proposals embrace another significant recommendation of the Brattle Group, including a one-percent left shift of the variable resource requirement curve. These recommendations were made by the Brattle Group not only because they are customer-friendly, but because they are competition-friendly.<sup>4</sup> In response to Brattle's recommendation that PJM investigate using a 10% adder, neither the DC OPC or IMM proposals include this adder given other conservatism built into RPM.

Importantly, Brattle analysis indicated that PJM's CT Net CONE proposal will provide the required Loss of Load Expectation of "1 day in 10 years," but in doing so it assumes that Combined Cycles become unable or unwilling to enter the market except at capacity prices more than 70% above Brattle estimates, which "describes a different world from the one we have observed in recent auctions with plentiful CC entry at low prices consistent with our [Brattle] cost analysis."<sup>5</sup>

We hope you share our concerns and seek for PJM's capacity market to be calibrated to produce just and reasonable prices and competitive results. PJM's Reliability Pricing Model depends upon well-considered administrative determinations to produce just and reasonable outcomes. We urge the Board to consider these concerns as it addresses the direction PJM should take with respect to the Quadrennial Review.

---

<sup>4</sup> As noted in the Brattle Group's recommendations, the goal of system reliability must be balanced with the goal of avoiding "excessive price volatility and susceptibility to market power abuse." Brattle Group, *Fourth Review of PJM's Variable Resource Requirement Curve* (April 19, 2018) at 52.

<sup>5</sup> *Id.* at 66-67.

Respectfully submitted,

*On behalf of the following organizations:*

**PJM Industrial Customer Coalition**

Susan E. Bruce, McNeese Wallace & Nurick LLC

**Delaware Division of the Public Advocate**

Andrew C. Slater, Public Advocate

Ruth Ann Price, Deputy Public Advocate

**Office of the People's Counsel for the District of Columbia**

Sandra Mattavous-Frye, People's Counsel

Karen R. Sistrunk, Deputy People's Counsel

Anjali G. Patel, Assistant People's Counsel

Frederick (Erik) Heinle III, Assistant People's Counsel

**Illinois Citizens Utility Board**

Kristin Munsch, Deputy Director

Eric DeBellis, Attorney & Policy Analyst

**Maryland Office of People's Counsel**

William F. Fields, Senior Assistant People's Counsel

**New Jersey Division of Rate Counsel**

Stefanie A. Brand, Director

Brian Lipman, Litigation Manager

Felicia Thomas-Friel, Deputy Rate Counsel

Henry Ogden, Assistant Deputy Rate Counsel

**Office of the Ohio Consumers' Counsel**

Bryce McKenney, Assistant Consumers' Counsel

**West Virginia Consumer Advocate Division**

Jacqueline Lake Roberts

cc:

Mr. David Anders, Secretary, Director of Stakeholder Affairs, PJM

Ms. Denise Foster, Vice President – State & Member Services, PJM

Ms. Evelyn Robinson, Managing Partner – State Government Affairs, PJM