UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C. ) ER15-623-000 )

LIMITED ANSWER OF PJM INTERCONNECTION, L.L.C.

Through its December 12, 2014 filing (“December 12 Filing”)\(^1\) and its February 13, 2015 answer filed (“February 13 Filing”)\(^2\) in the above-referenced proceeding, PJM Interconnection, L.L.C. (“PJM”) has fully supported its Capacity Performance proposal as just and reasonable under Section 205 of the Federal Power Act (16 U.S.C. §205d). And, while PJM does not see the need to answer the myriad additional pleadings parties have filed since PJM’s February 13 Filing because many of the arguments presented in those pleadings have already been addressed through PJM’s December 12 and February 13 Filings, PJM files this limited answer\(^3\) pursuant to Rule 213 of the rules of practice and procedure of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. § 385.213, to address the recently filed pleadings of the Transition Coalition\(^4\) and of the Independent Market Monitor for PJM (“IMM”).\(^5\) Specifically:

- Nothing cited by the Transition Coalition concerning winter 2015 generator performance changes the need for appropriate incentive and penalty reforms as proposed in PJM’s Capacity Performance proposal.

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\(^3\) PJM seeks leave to submit this answer to assist the Commission’s decision making process and clarify the issues. The Commission regularly allows answers in such cases. See, e.g., *PJM Interconnection, L.L.C.*, 139 FERC ¶ 61,165, at P 24 (2012) (accepting answers to a protest because “they have provided information that assisted [the Commission] in [its] decision-making process”); *PJM Interconnection, L.L.C.*, 104 FERC ¶ 61,031, at P 10 (2003) (accepting answer because “it will not delay the proceeding, will assist the Commission in understanding the issues raised, and will [e]nsure a complete record upon which the Commission may act”).
The Transition Coalition’s alternatives are out-of-market solutions and should not be considered in light of the just and reasonable market solution PJM has proposed.

The IMM’s alternative proposal for Sell Offer mitigation is complex, unnecessary, and raises implementation challenges.

I. Answer

A. Nothing Cited by the Transition Coalition Concerning Winter 2015 Generator Performance Changes the Need for Appropriate Incentive and Penalty Reforms as Proposed in PJM’s Capacity Performance Proposal.

The Transition Coalition continues to challenge the need for a transition mechanism and, to support their latest protest, they suggest that generator performance this past February shows a transition mechanism is unnecessary. They would like the Commission to be left with the impression that even with what they believe were more challenging conditions than during the polar vortex of January 2014, generation performance was improved and therefore there is no need for a transition mechanism to procure Capacity Performance Resources in the 2016/2017 and 2017/2018 Delivery Years.\(^6\)

The Commission need not parse out which year presented the tougher set of challenges to determine whether the performance incentives (\textit{i.e.}, increased compensation and commensurately increased performance standards with strict non-performance charges) supported in PJM’s Capacity Performance proposal meet the FPA Section 205 standard of review. PJM did not file its Capacity Performance proposal to address one year or one set of circumstances; PJM has presented a holistic set of reforms, addressing both changes to the penalty and incentive mechanisms in RPM to address these issues. The Capacity Performance proposal is designed to address a fundamental shortcoming in PJM’s capacity construct. That is, the current construct

\(^6\) See Transition Coalition Answer at 5-6. Capitalized terms not otherwise defined herein have the meaning specified in, as applicable, the Tariff, the RAA, or Amended and Restated Operating Agreement of PJM Interconnection, L.L.C.
does not incent generation performance during peak system conditions when it is needed the most. Moreover, it is not realistic to require such changes all at once when, in fact, investment will be needed during the transition period in order to bring units to a level to meet the new set of performance requirements. For all the reasons PJM presented in its December 12 and February 13 Filings, the Capacity Performance proposal is a necessary reform to PJM’s capacity market to ensure Capacity Resources will perform when they are needed by PJM, particularly during emergency conditions.\footnote{December 12 Filing at 6-21; February 13 Filing at 8-20.}

Allowing resources voluntarily to take on the increased performance obligations and attendant risks as soon as possible (with appropriate compensation for taking on such risks) will ensure that increasing quantities of resources are committed to serve PJM load under these increased performance standards as the transition to the complete procurement of Capacity Performance Resources progresses.

B. The Transition Coalition’s Alternatives Amount to Out-of-Market Solutions And Should Not Be Considered In Light Of The Just And Reasonable Market Solution PJM Has Proposed.

The Transition Coalition says even if the Commission finds measures are needed for the 2016/2017 and 2017/2018 Delivery Years, PJM’s transition mechanism should be rejected in favor of its alternative solutions.\footnote{See Transition Coalition Answer at 8-9.} First, the Transition Coalition suggests targeting revenue to BRA-cleared capacity for specific investments. Although they say this could be accomplished through an auction-based mechanism, for instance, to incent gas-only generators to install dual fuel capability,\footnote{Transition Coalition Answer, \textit{Technical Report: Summary of Analyses of PJM’s Proposed Capacity Performance Transition Incremental Auctions, Prepared for the Transition Coalition by LaCapra Associates}, at 6 (Feb. 23, 2015)} simply calling it an auction cannot turn an out-of-market solution into a market-based solution. Its second alternative suffers the same flaw in that it is in essence an out-of-
market solution that is looking only to procure one type of capacity – non-BRA cleared capacity – which does not afford the market the opportunity to determine which resources should clear.\(^\text{10}\)

The Commission has repeatedly stated its jurisdictional markets should use market mechanisms to ensure the resulting rates are just and reasonable.\(^\text{11}\) PJM’s transition incremental auction approach is an appropriate market mechanism. Rather than seeking out one type of resource – or one type of investment – over another, PJM’s market approach will operate under similar rules as its current Incremental Auctions are operated, subject to modified procurement targets and offer price caps (which limitations have been fully supported in PJM’s prior pleadings).\(^\text{12}\)

C. The IMM’s Alternative Proposal For Sell Offer Mitigation Is Complex, Unnecessary, and Raises Implementation Challenges.

In a filing submitted on February 25, 2015, the IMM proposed in this proceeding a Market Seller Offer Cap (“MSOC”) below Net Cost of New Entry (“CONE”) despite its prior concurrence with PJM’s proposal to set the default MSOC at Net CONE. Specifically, the IMM proposes the MSOC to be set Net CONE times the expected balancing ratio for the Capacity Performance, which he estimates, by applying the proposed Capacity Performance rules to past emergency events, is about 0.74 to 0.90. For all of the reasons PJM set forth in its prior

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\(^{10}\) Id.


\(^{12}\) December 12 Filing at 29-31; February 13 Filing at 45-46.
pleadings in this proceeding, the Commission should accept PJM’s MSOC proposal as just and reasonable. And for that reason, consistent with the Commission’s 205 standards, the Commission need not reach the merits of the IMM’s proposal. Nevertheless, PJM submits this answer to state its support of the limited answer of the NRG and Dynegy Companies, as well as the answer of Exelon, on this issue. Simply stated, the IMM’s proposal, regardless of its theoretical merits, would promise at best illusory added precision. But in practice, the added complexity and uncertainty required to forecast expected system demand during an emergency event three or more years into the future will rob the IMM’s proposal of any incremental “accuracy” it purports to offer in calculating a Capacity Market Seller’s offer cap.

II. CONCLUSION

For the reasons stated in the December 12 and February 13 Filings, as further supported herein, PJM requests that the Commission accept the proposed Tariff and RAA revisions submitted in this docket to be effective April 1, 2015.

Respectfully submitted,

13 December 12 Filing at 53-56; February 13 Filing at 73-84.
14 PJM’s burden in this section 205 proceeding is only to establish that its proposal is just and reasonable. It does not have to show that alternative approaches are unjust and unreasonable, or even that other options have less merit than PJM’s proposal. See, e.g., Cities of Bethany v. FERC, 727 F.2d 1131, 1136 (D.C. Cir. 1984).
15 PJM Interconnection, L.L.C., Answer to Motion, Motion for Leave to Answer, and Limited Answer of NRG Companies and Dynegy Companies, Docket ER15-623-000 (filed Mar. 4, 2015).
16 PJM Interconnection, L.L.C., Motion to Answer and Answer of Exelon Corporation, Docket No. ER15-623-000 (filed Mar. 4, 2015).
Dated: March 6, 2015
CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Audubon, PA this 6th day of March, 2015.

Jennifer Tribulski
Senior Counsel
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, PA 19403
(610) 666-4363
jennifer.tribulski@pjm.com