

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

OFFICE OF ENERGY MARKET REGULATION

PJM Interconnection, L.L.C.
Docket No. ER15-623-000

Issued: 3/31/15

PJM Interconnection, L.L.C.
1200 G Street, N.W., Suite 600
Washington, DC 20005

Attention: Craig Glazer
Vice President–Federal Government Policy

Reference: Capacity Performance Filing

Dear Mr. Glazer:

On December 12, 2014, in Docket No. ER15-623-000, PJM Interconnection, L.L.C. (PJM) submitted proposed changes to its Open Access Transmission Tariff (OATT) and Reliability Assurance Agreement Among Load Serving Entities (RAA), pursuant to section 205 of the Federal Power Act (FPA),¹ to establish a new capacity product, a Capacity Performance Resource, on a phased-in basis, to ensure that PJM's capacity market provides adequate incentives for resource performance (Capacity Performance Filing).

Please be advised that your submittal is deficient and that additional information is required in order to process the filing. Please provide the information requested below. To the extent that some of the requested information may contain confidential material, please submit a non-public version in addition to a public version for Commission review.

(1) During periods when PJM does not need new capacity in a given Locational Deliverability Area (LDA), why would Net CONE be an appropriate

¹ 16 U.S.C. § 824d (2012).

- competitive clearing price and appropriate competitive offer for the marginal resource?
- (2) In ISO-NE's Pay for Performance Filing in Docket No. ER14-1050-000, it proposed, and the Commission adopted, a default offer cap based on a formula consisting of going-forward costs (including non-performances penalties or bonus payments) and opportunity costs associated with accepting a capacity obligation.
- a. Would an offer cap in PJM based on the same components be consistent with PJM's expectations for resources offering competitively into PJM's capacity market?
 - b. Is the offer cap proposed by Monitoring Analytics, LLC, PJM's independent market monitor (Market Monitor) consistent with ISO-NE's offer cap methodology? If not, please explain the differences between the two methodologies and identify any modifications necessary to make the Market Monitor's proposed offer cap consistent with ISO-NE's methodology.
 - c. What is the appropriate relationship between the Non-Performance Charge rate and a capacity offer cap?
- (3) The Market Monitor proposed a default offer cap of Net CONE times the Balancing Ratio (B). Some intervenors criticized this proposal on the grounds that B is too difficult to estimate in advance. If PJM's Capacity Performance proposal had been in place during the past three delivery years, what would the balancing ratio have been in the PJM RTO and in each of the LDAs that cleared separately?
- (4) Under PJM's proposal, Non-Performance Charges assessed to a capacity resource would be a function of the Non-Performance Charge rate, its performance relative to the balancing ratio, and the number of Performance Assessment Hours that arise in the resource's LDA.

- a. In light of the Market Monitor's February 25, 2015, answer, which details historical Performance Assessment Hours,² is it appropriate to expect that the number of Performance Assessment Hours would vary predictably across different LDAs in PJM?
 - b. Would it be appropriate for offer caps to vary across different PJM LDAs to reflect any differences in expected Performance Assessment Hours?
- (5) Are there other appropriate approaches to developing offer caps for mitigation?
- (6) Provide any analysis PJM has completed that indicates the expected frequency with which a Capacity Performance resource would hit the monthly stop-loss limit of $(0.5 * \text{Net CONE})$, or the annual stop loss of $(1.5 * \text{Net CONE})$. Similarly, provide any analysis PJM has completed of expected performance charges and bonus payments for Capacity Performance resources under PJM's Capacity Performance proposal. Please provide supporting documentation in a machine-readable spreadsheet.
- (7) In ISO-NE's Pay for Performance Filing in Docket No. ER14-1050-000, it proposed, and the Commission adopted, a phase-in for its Capacity Performance Payment Rate. Is it appropriate for PJM to phase-in its Non-Performance Charge by transitioning from its proposed rate, based on 30 expected Performance Assessment Hours, to a more stringent penalty assessment?
- (8) Other than the proposed seller representations, what other mechanisms could be used to supplement the Non-Performance Charge to better incent resource performance?
- (9) In Docket No. ER14-1461-000, PJM proposed moving from three incremental auctions to one incremental auction. Would modifying PJM's proposal to include this change reduce the incentive to make speculative offers, and thereby improve price formation in the capacity market?

² Market Monitor February 25, 2015 answer at Appendix B, Table 1.

- (10) Please describe how PJM evaluates the performance of external resources that are not pseudo-tied to PJM. Specifically, how and when does PJM receive the data necessary to perform this evaluation?

This letter is issued pursuant to delegated authority, 18 C.F.R. § 375.307(a)(1)(v) (2014) and is interlocutory. The letter is not subject to rehearing pursuant to 18 C.F.R. § 385.713, and a response to this letter must be filed within 30 days of the date of this letter. For your response, use Type of Filing Code 180, Deficiency Filing. Please also email an additional electronic copy of the response to Kris FitzPatrick at kris.fitzpatrick@ferc.gov.

The electronic tariff filing requested in this letter will constitute an amendment to your filing and a new filing date will be established pursuant to *Duke Power Co.*, 57 FERC ¶ 61,215 (1991). A notice of amendment will be issued upon receipt of your response.

In addition, please provide a copy of the response to all parties that have either requested or been granted intervention in this proceeding. Failure to respond to this letter within the time period specified may result in an order rejecting the filing. Until receipt of the amendment filing, a filing date will not be assigned to your filing.

Sincerely,

Daniel Nowak, Acting Director
Division of Electric Power
Regulation – East