UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators	)))	Docket No. AD13-7-000

WRITTEN STATEMENT OF JAMES A. JABLONSKI ON BEHALF OF THE PUBLIC POWER ASSOCIATION OF NEW JERSEY

The Public Power Association of New Jersey ("PPANJ") thanks the Commission for holding this technical conference to discuss the centralized capacity markets in regional transmission organizations ("RTOs") and independent system operators ("ISOs"). I am honored to have been selected to represent PPANJ members – including the nine municipal electric systems operated as departments of local government and New Jersey's only rural electric cooperative.

All PPANJ members are load serving entities ("LSEs"). Most own little or no generation with the exception of the City of Vineland, which is our largest member. But all are interested in pursuing construction of or investment in new capacity resources for self-supply. While we have no definite plans, we await passage of legislation in New Jersey that will allow us to establish a shared services energy authority, similar to joint-action agencies that exist in 37 other states. The authority will allow our members to pool resources and consider capacity projects for self-supply.

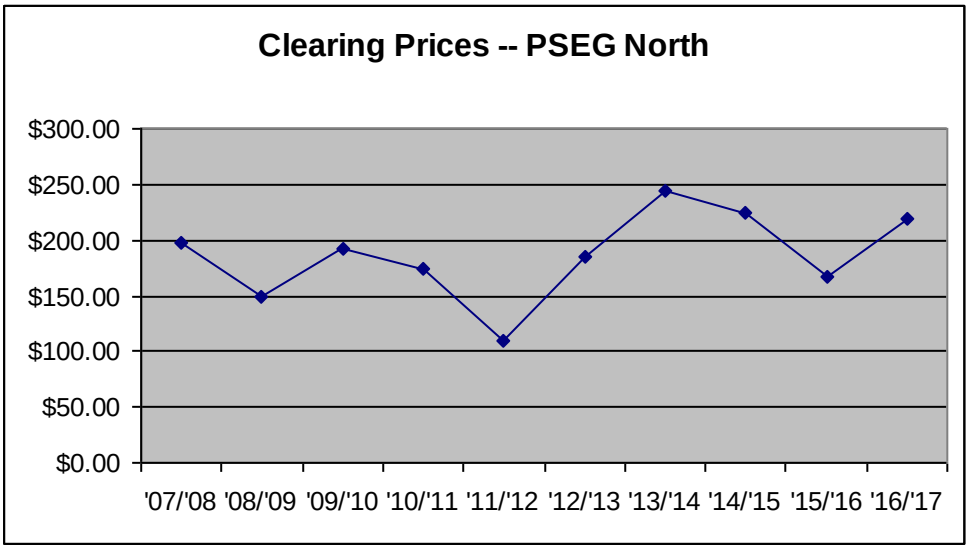
The nine municipal members of the PPANJ are also PJM members and each has selected me to serve as their representative in the PJM stakeholder process. I have been doing so since 2008 and have attended an average of about 60 stakeholder meetings per year. Our experience places us in a position to add to this discussion from the perspective of relatively small systems that are, by their nature, very close to end-use customers and directly impacted by PJM's centralized capacity market.

Please accept the following written comments in answer to questions posed for panel two of the conference.

1. How effective are the existing centralized capacity markets in assuring that resource adequacy needs are met at just and reasonable rates?

It has been demonstrated to the satisfaction of the Commission and Courts that the centralized capacity markets as they have evolved and exist assure that adequacy needs are met at just and reasonable rates. We respectfully disagree and point to Commission Staff Report AD13-7-000, Figure 1. Capacity Clearing Prices in Each RTO and Select Sub-Regions for Commitment Periods between 2006 – 2017.

It is difficult for those of us who pay these prices – load serving entities (LSEs) and their end-use customers – to conclude that the volatility depicted in Figure 1 demonstrates that centralized capacity market rates are reasonable. As a further example, the chart below depicts Resource Clearing Prices in the PSEG North Locational Delivery Area ("LDA").



The increases have been sharper than the decreases. The average decrease has been about 21 percent. The average increase has been 40 percent. In fact, the back-to-back increases in 2012/2013 and 2013/2014 equal a near 123 percent increase over the clearing price in 2011/2012. At $245 per megawatt day the 2013/2014 figure represents the highest clearing price since RPM was implemented. After nearly seven years, we had hoped that PJM's centralized capacity market would have worked as intended; result in

resources where needed and allowed us to conclude that rates are just and reasonable. We are still, however, unable to endorse this conclusion.

2. What modifications, if any, would you recommend be made to capacity markets in general or to specific market design elements?

In general, we recommend that the Commission adopt a guiding principle that considers the impact of centralized capacity markets and all RTO/ISO markets on end-use customers and the economy. We believe it truly just and reasonable to strike a balance between the costs to achieve RTO/ISO goals – including resource adequacy – and the interests of those who pay those costs. PJM moved ahead through the darkest days of the Great Recession with no apparent regard for rising unemployment, foreclosures, and business closings. It was clear that the economy would limit growth and that load would not achieve forecast levels. But the PJM load forecast was not adjusted at the time and auctions resulted in over-procurement. As a result, customers who survived the Great Recession are paying for their own high-priced capacity and for the capacity that is not being consumed by customers that did not survive.

At the same time, PJM introduced Shortage Pricing and chose to allow prices to exceed $1,000 per megawatt-hour during emergency conditions. It seems to us that, at very least, a plan that could add to the financial burden of already struggling homeowners and businesses could have been delayed. Electricity is an essential service that must be affordable to all customers to help the economy recover. The Commission should use that principle in reviewing the impact of centralized markets.

As to specifics, the PPANJ recommends that the Commission restore the self-supply provisions included in the RPM settlement of 2006. Capacity resources built for self-supply by municipals and cooperatives were guaranteed to clear Base Residual Auctions ("BRAs") at zero so that we could confidently invest in new generation and fulfill our long-term obligation to serve our customers at the lowest reasonable cost.

We understand that change in and affecting the electric utility industry requires RTOs and ISOs to adapt and meet the resulting challenges. But nothing about who we are as municipals and cooperatives or our role in the industry has changed. We have

remained vertically-integrated utilities with a long-term obligation to our retail customers. Our business models and principles remain the same. We are still not-for-profit. We have the ability to plan and make large investments in our own infrastructure – including capacity resources for self-supply. We do so absent any intent to affect PJM market outcomes. But we find ourselves caught up in reactions to changes unrelated to us.

The City of Vineland, New Jersey intends to self-supply its entire 160 megawatt system with traditional and renewable generation. Vineland offered a 57 megawatt simple cycle combustion turbine in the 2009 BRA. It cleared under the settlement provisions of 2006. The City also achieved success on the renewable side of its portfolio and was ranked number one among all U.S. utilities by the Solar Electric Power Association in solar watts generated per customer in 2011. Plans to complete their self-supply portfolio with more solar and another 57 megawatt combustion turbine were already in progress.

At this same time the Commission was asked to consider changes to PJM's Minimum Offer Price Rule ("MOPR"). Municipals and cooperatives argued that the self-supply settlement provisions of 2006 should be retained. But those provisions were in jeopardy and so were Vineland's plans. As a result, the PPANJ chose to support what would become the unit-specific exception to PJM's MOPR. We were confident that, with a properly crafted unit-specific exception, the data required would prove that we could legitimately build at a price below the MOPR. The Commission approved the unit-specific exception, but the self-supply provisions were lost. Future offers of new capacity would have no guarantee of clearing the next BRA and zero bids would not be allowed. Municipals and cooperatives, like Vineland, with plans to build new capacity for self-supply had to reconsider the feasibility of their projects.

Vineland was, however, confident that its project remained feasible based upon the belief that it would qualify for the new unit-specific exception; despite the financial impact of the lost self-supply provisions of 2006. Vineland was, in fact, granted an exception for the 2012 BRA and its second 57 megawatt simple cycle combustion turbine cleared. It will come on line in 2015.

Vineland had become a model of success for New Jersey's other municipally-owned electric utilities. It brought its first new plant on line on June 1, 2012 and reduced retail rates the same day and again in October. In fact, Vineland now offers the lowest retail electric rates in New Jersey. But the MOPR roller coaster ride in PJM remains as volatile as capacity clearing prices and threatens the ability of municipals and cooperatives to self-supply their resource needs.

In the summer of 2012, we were invited to join other stakeholders working on still more MOPR changes. The result was a new self-supply exception as well as a competitive market exception to the MOPR. As approved by the Commission, the new self-supply exception guarantees clearing and allows zero bids for municipals and cooperatives that fit associated net long/net short criteria. In its order, the Commission also directed PJM to keep its unit-specific exception for capacity market participants that could not qualify for two new MOPR exceptions.

This was great news for PPANJ members interested in building capacity resources for self-supply; either separately or jointly as part of a joint-action agency that would be formed under pending legislation.

But the new self-supply exception is being challenged at the Commission. PJM and the Independent Market Monitor are asking stakeholders to change the unit-specific exception. The feasibility of municipal and cooperative self-supply capacity projects are in double jeopardy. We are once again faced with the prospect of losing a viable self-supply exception, while proposed changes that would create a 'somewhat' unit-specific exception are unacceptable. The Vineland project that secured the unit-specific exception for the 2012 BRA would have been in jeopardy if the changes currently under consideration had been in place at that time.

Still, nothing about who we are as municipals and cooperatives or our role in the industry has changed. We are still vertically-integrated utilities with a long-term obligation to supply our retail customers at the lowest reasonable cost. Our business models and principles are the same. We are still not-for-profit. We can effectively plan and make large investments in our infrastructure – including capacity resources for self-

supply. We still do not intend to affect PJM markets outcomes. We have been told throughout this ongoing evolution of the MOPR that we are not the problem. The Commission can end this roller coaster ride by restoring the self-supply provisions of the 2006 RPM settlement.

3. Centralized capacity market design elements necessarily interact with each other and with the energy and ancillary services markets. Are there problems created by this interaction that should be addressed to improve the functioning of centralized capacity markets or energy markets?

We are concerned about the interaction between energy and ancillary services ("E&AS") offsets and PJM's Shortage Pricing. E&AS offsets to the Cost of New Entry ("CONE") are based upon a three-year historical average. Therefore, they do not reflect changes to the E&AS payments during the year in which capacity revenue is actually received. As emergency conditions may cause PJM to implement Shortage Pricing, capacity payments would not be reduced to account for the additional revenue received. This may be intended, but both the capacity market and Shortage Pricing are supposed to serve as an incentive for the development of new capacity resources. We recommend that the Commission consider whether or not capacity owners should receive only that portion of Shortage Pricing revenue that exceeds RPM revenue in any given year.

As the August 23, 2013 Staff Report observes, "the original capacity market designs were voluntary balancing markets intended to provide transparent market-based mechanisms to assist load serving entities in meeting their installed capacity obligations." As the Commission has continued to reform capacity market design elements, it may have lost sight of the concessions and provisions made in the energy and ancillary services markets, including LMP. While the PPANJ may prefer a voluntary market where bilateral contracts (assured cost-recovery) are not considered 'out-of-market subsidies' as better suited to our business model, we believe the Commission should, at very least, consider whether LMP as originally designed is still appropriate as it relates to today's capacity markets.

4. Regional capacity markets also interact with each other. What are the implications of regional differences in capacity market designs?

Our only experience outside of PJM is in our role as bargaining agent for the State of New Jersey in connection with the purchase of capacity and energy from the New York Power Authority ("NYPA"). We are responsible for the negotiation and administration of contracts with NYPA for two allocations of hydropower. One governs an allocation from the Niagara Power Project, all of which is sold to PPANJ members as 'preference' customers as required under the Niagara Redevelopment Act. The second

governs an allocation from the St. Lawrence – FDR project, which is sold to all PPANJ members and New Jersey's four investor-owned utilities.

Our responsibilities require that we interface with the New York Independent System Operator ("NYISO") and various New York State agencies as well as NYPA. The NYISO charges associated with the hydro allocations are passed through to us as part of the NYPA bills. We have worked to increase the value of these allocations with both NYPA and the NYISO and monitor changes that may benefit New Jersey. This effort is limited owing to time constraints associated with other daily activities – including participation in PJM.

As PJM stakeholders, we are aware of and are monitoring ongoing efforts of PJM and the NYISO to improve interaction between the two. The only outcome to our knowledge as been planned implementation of Coordinated Transaction Scheduling to better align energy scheduling with interface pricing.

5. What is the impact on centralized capacity markets of transmission system upgrades and expansions? Can transmission planning be more effectively integrated with or accounted for in the design elements of centralized capacity markets?

The impact of transmission system upgrades and expansions on centralized capacity markets is positive where they relieve constraints and allow capacity to be delivered to places where it is most needed.

New Jersey is the most densely populated state in the US and much of its open space is protected. This leaves little or no land for construction of virtually any new capacity resources except on property where plants already exist or may have existed. Anyone who would propose construction of new capacity where land may be available must expect opposition from those who consider power plants to be undesirable neighbors. And there will be rightful concern about environmental impacts. Unfortunately, the lack of space, concerned neighbors and environmental impacts can also confound attempts at transmission upgrades and expansion; perhaps more so in a densely populated state. Witness the ongoing challenges to the Susquehanna-Roseland line.

Given these issues, we are not certain that more effective integration with or accounting for transmission planning will lead to more positive impacts on RPM as it relates to New Jersey. As PJM stakeholders, we are aware that the RTO continues to improve its Regional Transmission Expansion Plan ("RTEP") methodologies as a matter of course and in response to Commission actions such as Order 1000. And that approved transmission projects are integrated into and accounted for in RPM.

Since New Jersey is a difficult place in which to build, the PPANJ recommends one final modification to centralized capacity markets. Where an LDA is found to be constrained as a result of a capacity auction, the capacity price in that area will be higher than the rest of the RTO or zone. In response, the Commission should consider the development of a mechanism that would factor into the LDAs resulting capacity price those verifiable limitations or barriers to actual relief of the constraints. For example, if there is a lack of space suitable for new capacity resources, transmission expansion or even upgrades in a given LDA, the resulting capacity price for that LDA would be reduced by an appropriate factor. Market generated results would no longer assume that power plants and transmission lines can actually be built wherever the market says they are needed. Those who pay the capacity price would no longer be forced to pay for something that has little or no hope of being built. While this may further complicate already complex centralized capacity markets, we believe injecting existing conditions as suggested and the savings that result make this recommendation worthy of consideration.

Respectfully Submitted,

/s/ James A. Jablonski

James A. Jablonski

Executive Director

Public Power Association of New Jersey

PO Box 206

Seaside Heights, NJ 08751

732-236-7241 (cell)