158 FERC ¶ 61,010
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;
Cheryl A. LaFleur, and Colette D. Honorable.

PJM Interconnection, L.L.C. Docket No. ER17-335-000

ORDER ON PROPOSED TARIFF CHANGES

(Issued January 6, 2017)

1. On November 9, 2016, PJM Interconnection, L.L.C. (PJM) submitted proposed changes to its Open Access Transmission Tariff (OATT), pursuant to section 205 of the Federal Power Act (FPA),[1] to revise its pricing methodology for the release of excess committed capacity in its upcoming Third Incremental Auction for the 2017/18 Delivery Year. We accept PJM's proposal, subject to condition, effective January 9, 2017 as requested, as discussed below.

I. **Background and PJM's Instant Filing**

2. As part of its capacity market construct, PJM holds three incremental auctions following the initial Base Residual Auction (BRA) for a given Delivery Year. The incremental auctions allow PJM to procure or release capacity as needed to reflect its updated load forecast, and allow previously committed capacity resources to "buy back" their capacity supply obligations (i.e., purchase replacement resources). To the extent that PJM releases capacity, any proceeds from these auctions offset capacity charges to load.

3. In an order issued June 9, 2015, the Commission conditionally accepted PJM's proposal to establish a new capacity product, the Capacity Performance Resource, on a phased-in basis, to ensure that resources perform more reliably as the system approaches emergency conditions.[2] In the Capacity Performance Order, the Commission also

[1] 16 U.S.C. § 824d (2012).

[2] *PJM Interconnection, L.L.C.*, 151 FERC ¶ 61,208 (2015) (Capacity Performance Order).

conditionally accepted PJM's proposal to conduct two Transition Auctions to procure Capacity Performance commitments for the 2016/17 and 2017/18 Delivery Years (Transition Auctions), the two delivery years for which PJM had already procured capacity commitments under its prior rules.

4. Under PJM's Transition Auction rules, a seller seeking a commitment as a Capacity Performance Resource was permitted to submit an offer into PJM's Transition Auctions to establish: (1) a superseding commitment for a resource that had previously cleared for the relevant delivery year; or (2) a new commitment for a resource that had not previously been committed.

5. In the Transition Auction for the 2017/18 Delivery Year, PJM procured 10,017 MW of previously uncommitted capacity. PJM stated that if it were to use the same pricing methodology for releasing excess capacity as it did for the excess capacity it released for the 2016/17 Delivery Year, it would offer $0/MW-day for all or most of the 10,017 MW of excess committed capacity, which would result in no revenue flowing back to load. To better reflect the potential benefit to load of retaining excess committed capacity, PJM proposes to modify its Tariff to change the pricing methodology for the excess capacity committed as a result of the transition incremental auction for the 2017/18 Delivery Year in the regularly-scheduled February 27, 2017 incremental auction.

6. PJM's proposal involves three primary steps. First, PJM states that, using its existing methodology, it will determine the quantity and price at which PJM would procure or release capacity in the Third Incremental Auction for the 2017/18 Delivery Year due to changes in reliability requirements or PJM region peak load forecast net of the remaining holdback quantity.[3] PJM further explains that if a quantity needs to be procured by PJM, then it will reduce the quantity by 10,017 MW, but not below zero, and procure the remaining quantity according to the existing pricing methodology. Alternatively, PJM states that if a quantity needs to be released by PJM, then it will release this quantity, without adjustment, according to the existing pricing methodology.[4]

7. Second, PJM explains that the 10,017 MW of excess capacity, reduced (but not below zero) by the quantity to be procured by PJM, described above, will be released as a PJM sell-offer separate and distinct from any PJM sell offer described in the first step, using an upward-sloping curve connecting two points. PJM describes point one as

[3] PJM Transmittal Letter at 7. PJM notes that the holdback quantity is approximately 2,475 MW for the Third Incremental Auction for the 2017/18 Delivery Year. *Id.* at 7 n.16. The holdback is 2.5 percent of the PJM region reliability requirement determined for a particular BRA. *See* OATT Definitions –R –S (9.0.0).

[4] PJM Transmittal Letter at 7.

reflecting the cost to procure the additional 10,017 MW divided by the quantity of load across which this cost is allocated,[5] and point two as the value representing the maximum price that a market seller would be expected to pay to replace a resource commitment made in the BRA.[6]

8. Third, PJM asserts that it will exclude any uncleared quantity of the 10,017 MW offered under the second step above when determining excess commitment credits. PJM explains that under its existing tariff when PJM releases capacity in a scheduled Incremental Auction and some of that capacity does not clear, the uncleared quantity becomes excess commitment credits allocated to load-serving entities.[7] PJM states that the load-serving entities may trade the excess commitment credits bilaterally, or use the credits to replace existing capacity commitments. PJM claims that the PJM sell offer price determined in step two is intended to represent the sufficient price; therefore, any uncleared quantity would represent committed capacity that load is better off retaining. PJM asserts that to subsequently release that uncleared quantity through excess commitment credits would undermine the basic premise that load will benefit by retaining excess committed capacity if sufficient revenue flowing back to load cannot be realized.[8]

9. PJM concludes that without the proposed tariff revisions, a PJM sell offer price of $0/MW-day could result in an extremely low clearing price, perhaps as low as $0/MW-day, and therefore, no revenue flowing back to load, which is unjust and unreasonable under the circumstances.[9]

[5] Point one is thus set at $10.74/MW-day for 0 MW, or 10,017 MW of capacity multiplied by $151.50 per MW-day, which is the clearing price for the Transition Auction for the 2017/18 Delivery Year, divided by 141,345 MW of load, which reflects the most recent PJM region peak load forecast for the 2017/18 Delivery Year. *Id.* at 8-9.

[6] Point two is thus set at $144/MW-day for 10,017 MW (or a reduced quantity, if applicable as described in the first step), which is the equivalent to the Capacity Resource Deficiency Charge of 1.2 multiplied by the BRA clearing price for the 2017/18 Delivery Year. *Id.* at 8-9.

[7] *See* PJM OATT Attachment DD § 5.12(b)(viii).

[8] PJM Transmittal Letter at 8-9.

[9] *Id.* at 9-10.

II. Notice of Filing and Responsive Pleadings

10. Notice of PJM's filing was published in the *Federal Register*, 81 Fed. Reg. 80,655 (2016), with interventions and protests due on or before November 30, 2016.

11. Timely motions to intervene were filed by Delaware Division of the Public Advocate, Buckeye Power, Inc., NRG Power Marketing LLC, GenOn Energy Management, LLC, Old Dominion Electric Cooperative, Dominion Resources Services, Inc., PSEG Energy Resources & Trade LLC, PSEG Power LLC, and Public Service Electric and Gas Company. Timely motions to intervene and comments in support of PJM's filing were filed by Direct Energy Business, LLC, on behalf of itself and its affiliate Direct Energy Business Marketing, LLC (together, Direct Energy), PJM Power Providers Group (P3), and NextEra Energy Resources, LLC (NEER). American Municipal Power, Inc. (AMP) filed a timely motion to intervene and protest. On December 15, 2016, PJM filed an answer to AMP's protest.

A. Protests and Comments

12. Direct Energy, P3, and NEER all support PJM's proposal. Although these parties note that other reasonable methodologies may exist for pricing the release of excess capacity, they generally agree that excess capacity has a value to load in enhancing reliability and reducing energy and ancillary services costs. Direct Energy explains that without PJM's proposed changes the underlying premise of the PJM capacity market that excess capacity does have a value to consumers would be contradicted.[10]

13. AMP protests PJM's filing, arguing that PJM has failed to demonstrate its proposal will provide the greatest relief to load-serving entities from the costs of the excess capacity PJM procured. Although AMP acknowledges that a clearing price of $0/MW-day is undesirable, AMP states that PJM's proposed solution offers no greater assurance that load-serving entities will receive meaningful relief from the costs of excess procured capacity. AMP makes four arguments opposing PJM's filing. AMP first argues that PJM has not provided any analysis demonstrating that load benefits from PJM retaining excess committed capacity.[11] AMP states that PJM neither analyzes the relationship between energy and ancillary services costs and the retention of excess capacity, nor justifies its assertion that load will only be satisfactorily compensated for excess committed capacity if PJM offers the excess and it clears at a price that sufficiently reflects this potential foregone value.

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[10] Direct Energy Comments at 3.

[11] AMP Protest at 5-6.

14. Second, AMP argues that PJM's proposal arbitrarily establishes an offer price for the excess capacity, rather than offering excess committed capacity as a price-taker,[12] unjustly and unreasonably jeopardizing the relief load hopes to receive from PJM's over-commitment. If PJM buys out of its commitments, albeit at a low price, AMP continues, load would get some value, but if the excess capacity fails to clear due to the offer price, load would get only the speculative value of which PJM has provided no evidence. According to AMP, PJM should sell the excess committed capacity, even for almost nothing, to help offset the capacity costs.

15. Third, AMP protests PJM's proposed exclusion of uncleared capacity from excess commitment credits. AMP argues that eliminating the ability of load-serving entities to bilaterally trade excess commitment credits or use them to replace existing capacity commitments, based on the unsupported theory that load will benefit by retaining excess committed capacity if sufficient revenue flowing back to load cannot be realized, is unjust and unreasonable.[13] According to AMP, PJM would determine on behalf of load that a "sufficient" price is equivalent to its sell offer price; so any excess capacity that fails to clear represents committed capacity that load is better off retaining. AMP argues that there is no basis for this proposal, and the Commission should reject it.

16. Lastly, AMP asserts that majority approval of PJM's proposal by its members prior to filing does not make the proposal just and reasonable.[14] AMP notes that PJM carries the burden to demonstrate, with evidence, that its proposal is just and reasonable.

B. <u>PJM's Answer</u>

17. In response, PJM argues that it has provided evidence that its proposal is just and reasonable and that offsetting costs of excess committed capacity is better than nothing.[15] Specifically, PJM asserts that AMP's protest ignores that PJM's proposal, with its sloped offer curve, provides full assurance that capacity will not clear at $0/MW-day. Conversely, PJM states that acting as a price taker, as AMP suggests, could very well end in a clearing price of $0/MW-day for all or a significant portion of the capacity. PJM clarifies that in the Third Incremental Auction for the 2016/17 Delivery Year, participants purchased replacement capacity at an average price of just $4.79/MW-day when PJM offered 4,818 MW as a price taker. In the upcoming Third Incremental Auction for the

[12] *Id*. at 7-8.

[13] *Id*. at 8-9.

[14] *Id*. at 9-10.

[15] PJM Answer at 3-5.

2017/18 Delivery Year, PJM notes, the amount of excess commitment capacity has more than doubled, such that the auction may clear at $0/MW-day.[16] PJM acknowledges that the value to load of reduced energy and ancillary services costs associated with retaining excess committed capacity cannot be discretely forecast or measured because it would depend on actual system conditions that may arise during the relevant Delivery Year. PJM asserts that all else being equal, the value to load of retaining excess committed capacity must certainly be greater than zero. PJM again notes that the original proposal is limited in application to the Third Incremental Auction for the 2017/18 Delivery Year and stems from the special circumstances of the Transition auctions, which no longer exist.

18. PJM defends its decision to eliminate the awarding of excess commitment credits.[17] Specifically, PJM disagrees with AMP's allegation that failing to allocate any uncleared portion of the excess capacity to load-serving entities as excess commitment credits is equivalent to simply throwing away the quantity of uncleared capacity. Conversely, PJM asserts that each MW of uncleared capacity in this instance equates to one MW of retained capacity commitment carrying with it resource requirements and obligations that provide benefit to load.[18] PJM argues AMP's proposal would allow this capacity to be used as replacement for other committed capacity, thereby eliminating the benefit to load.

III. Discussion

A. Procedural Matters

19. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2016), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

20. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2016), prohibits answers to protests unless otherwise ordered by the decisional authority. We accept PJM's answer because it has assisted us in our decision-making process.[19]

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[16] *Id*. at 4.

[17] *Id*. at 5-6.

[18] *Id*. at 6.

[19] 18 C.F.R. § 385.213(a)(2) (2016).

B. Substantive Matters

21. We accept PJM's proposed tariff changes, subject to the condition that PJM submit revised tariff sheets, within 30 days of the date of this order, reflecting the changes discussed below, effective January 9, 2017, as requested.[20]

22. In accepting PJM's proposal subject to condition, we are making a narrow finding that, for purposes of the Third Incremental Auction for the 2017/18 Delivery Year only,[21] it is just and reasonable for PJM's sell-back procedure to place a higher value on excess capacity than the current Incremental Auction procedure does. While we acknowledge deficiencies in PJM's filing, as discussed below, we also agree with PJM that it is just and reasonable for PJM to alter the shape of its sell-back offer curve to a straight line, eliminating the potential that the relevant Incremental Auction could clear at or near $0 per MW-day.

23. However, while we agree with PJM's underlying rationale for developing an alternative pricing methodology,[22] PJM has not sufficiently justified either point on its sell-back offer curve. We agree with AMP that PJM's proposed end point parameters appear to be arbitrary and inconsistent with the established way PJM's markets represent the value of excess capacity to load.[23] As discussed below, we find that PJM does

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[20] The Commission can revise a proposal filed under section 205 of the Federal Power Act as long as the filing utility accepts the changes. *See City of Winnfield v. FERC*, 744 F.2d 871, 875-77 (D.C. Cir. 1984). The filing utility is free to indicate that it is unwilling to accede to the Commission's conditions by withdrawing its filing.

[21] We recognize that PJM has recently revised its load forecasting methodology, as reflected in Manual 19, for the purpose of eliminating unnecessary over-procurements. We encourage PJM to continue working with its stakeholders to further improve its load forecasting methodology.

[22] As discussed above, PJM describes its rationale for the pricing methodology as to acknowledge the potential benefit to load of retaining excess committed capacity, and as such, the price at which excess committed capacity is released should result in revenue flowing back to load at a price that sufficiently reflects the potential foregone value of retaining that excess committed capacity.

[23] While PJM describes point one as reflecting the cost to procure the additional 10,017 MW divided by the quantity of load across which this cost is allocated, PJM has not provided any evidence as to why this value is appropriate as point one. In addition, PJM attempts to support the second point in its revised offer curve as equal to the deficiency charge a resource would pay if it failed to provide capacity. However, PJM has not explained why the charges faced by a capacity resource unable to meet its *(continued ...)*

not adequately justify its proposed deviations from how its markets value capacity. We instead find that end point parameters consistent with PJM's Variable Resource Requirement (VRR) Curve[24] represent a just and reasonable approximation of excess capacity's value to load.

24. A reasonable placement of point one would be at the lowest price point on PJM's current sell-back offer curve and a reasonable placement of point two would be the BRA clearing price. These points are consistent with how PJM's market has valued capacity for the 2017/18 Delivery Year and maintain PJM's proposed straight line sell-back offer curve. Thus, we accept the filing on the condition that PJM adjusts the parameters of its proposed curve to set point one at the lowest price point on PJM's sell-back offer curve and point two at the BRA clearing price.

25. We also condition our acceptance of PJM's proposal subject to PJM combining its proposed two auctions into one auction. Under PJM's proposal, PJM would conduct two auctions, one to sell back excess capacity acquired through the Transition Auction, and one to sell back excess capacity resulting from an updated, and reduced load forecast. The load forecast auction would utilize PJM's existing sell-back offer curve, while the second auction would use PJM's proposed, temporary sell-back offer curve. PJM has provided no justification for using two different methodologies to sell back MWs that are otherwise indistinguishable and equally capable of meeting reliability needs. Performing two auctions in this manner will result in creating two prices for the same product in the same auction, without any justification for the different prices.

26. We, therefore, accept the filing on the condition that PJM's compliance filing combine its proposed two auctions into one auction. Specifically, PJM would calculate its revised load forecast, adding the MW difference (if the load forecast goes down) or subtracting the MW difference (if the load forecast goes up) from the 10,017 MWs of excess capacity acquired through the Transition Auction for the 2017/18 Delivery Year. PJM would then conduct the auction using the revised sell-back curve proposed in this proceeding, as further modified above. This modification would ensure that all the MW that need to be procured or released are treated uniformly as well as creating one price for the one product within one auction.

27. Third, we condition our acceptance on PJM allocating the uncleared excess capacity, if any, to load-serving entities as excess commitment credits. While PJM's filing seeks to quantify the average benefit to load of retaining excess capacity, individual load-serving entities that do not place a high value on excess capacity should be allowed

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capacity commitment is consistent with the value load has for excess capacity.

[24] PJM's terminology for its capacity demand curve.

to use or trade uncleared excess capacity in the form of excess commitment credits. We find that continuing to allocate excess commitment credits allows load serving entities – as load's representatives – to assert their own value of excess committed capacity. Different load-serving entities may value retained excess committed capacity differently and excess commitment credits allow them to express those economic preferences. We, therefore, accept the filing on condition that PJM allocate the uncleared excess capacity, if any, to load-serving entities as excess commitment credits.

The Commission orders:

PJM's proposed tariff changes are hereby accepted, subject to condition, and to the submission of a compliance filing within 30 days of this order, as discussed in the body of this order, effective January 9, 2017, as requested.

By the Commission.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.