

February 9, 2018

VIA EMAIL

The PJM Board of Managers
c/o Mr. Howard Schneider
PJM Interconnection, L.L.C.
2750 Monroe Boulevard
Audubon, Pennsylvania 19408

RE: PJM Proposal to Redesign the Capacity Market in Response to State Energy Policies

Dear Mr. Schneider and the PJM Board of Managers:

Thank you for the opportunity to comment on this important matter in advance of the upcoming Liaison Committee meeting and Board Meeting. Since introducing this issue publicly, PJM staff has completed a robust process and discussion in the stakeholder process which resulted in several alternatives for consideration. As PJM stated in its answer to a complaint several generators filed regarding the introduction of potential subsidies into the market, “PJM agree[d] that the Complaint has highlighted a gap in the current MOPR that could result in unjust and unreasonable auction clearing prices.”¹ Since PJM filed its answer, there have been no changes to the market design that eliminate that gap.

Moreover, the undersigned write to express our serious concerns with PJM’s January 16, 2018 proposal to drastically redesign the capacity market to accommodate state energy policies. Our companies rely on a vibrant and competitive power market to provide reliable price signals and fair outcomes. We are deeply troubled by PJM Staff’s decision to move forward with their Capacity Repricing proposal. It is anticompetitive and inherently biased in favor of subsidized generation owners and against merchant actors. It is our sincere hope that the PJM Board strongly consider the numerous occasions where the members voted against Capacity Repricing and recognize the likelihood that it will not be deemed “just and reasonable” by the Federal Energy Regulatory Commission.

Capacity Repricing is hardly a novel concept. As stated in a January 16, 2018 letter to stakeholders from PJM CEO Andy Ott, “PJM has discussed this issue with stakeholders for more than 12 months and the [Capacity Construct and Public Policy Senior Task Force] has spent more than twenty meetings during the past six months grappling with this issue.” Mr. Ott is correct. Yet despite their effort, PJM staff failed to convince the members that Capacity Repricing is a just and reasonable proposal. When the Task Force ended, just 26.1 percent of the 287 individual companies voted in favor of management’s preferred

¹ Capacity Market Repricing Proposal – Updated: Letter from PJM President & CEO (“January 16 Letter”). Available at <http://www.pjm.com/-/media/about-pjm/who-we-are/public-disclosures/20180116-pjm-president-and-ceo-letter-regarding-capacity-market-repricing-proposal.ashx?la=en>

result.² The results were repeated during a vote at the Markets and Reliability Committee (“MRC”), where just 21.4 percent of the 144 unique respondents supported Capacity Repricing.³

Item 5: CCppSTF Tariff Revisions - PJM CCppSTF Proposal with details in letter from January 16th letter

<u>Sector</u>	<u>Yes</u>	<u>No</u>	<u>Abstain</u>	<u>Sector Weight in Favor</u>
Electric Distributors	1	24	4	0.04
End Use Customers	0	17	3	0.00
Generation Owners	4	23	0	0.15
Other Suppliers	6	39	12	0.13
Transmission Owners	6	2	3	0.75
Totals	17	105	22	1.07

Only one sector, the Transmission Owners, supported PJM’s design. This sector’s members include multiple companies that either have received or are seeking subsidies for uneconomic generation assets operated by their affiliates. These are the same members that the January 2016 Letter confirms “benefit from such programs.” Despite the January 16 Letter’s explicit statement that management was prepared to ignore the MRC vote and reject MOPR-Ex, it fell just shy of gaining support from a supermajority of members. Just one sector, the Transmission Owners, opposed MOPR-Ex.

To be clear, PJM is entitled to its position on MOPR-Ex, and there is value in voicing that opinion at the appropriate time. However, it must be mentioned that early on in this process several companies put forth alternative two-tiered capacity constructs designed to minimize harm to competitive markets. PJM staff rejected these proposals too. Yet the January 16, 2018 update to Capacity Pricing included a change that eliminated any safeguard against price suppression from vertically integrated utilities, which do not rely on merchant markets for needed revenues.

Capacity Repricing is not an appropriate path forward. The construct “virtually guarantees that a resource obtaining state support will receive a capacity payment from PJM” and will produce clearing prices that “*approximate* what would have occurred had all offers been competitive.”⁴ Merchant suppliers have no guarantee that their offers will clear. These synthetic prices inaccurately signal scarcity despite adequate supply. This is not an appropriate balance between honoring state energy policies and

² CCppSTF voting results are available at <http://pjm.com/-/media/committees-groups/task-forces/ccppstf/20171121/20171121-ccppstf-vote-results.ashx>

³ January 25, 2018 MRC voting results are available at <http://pjm.com/-/media/committees-groups/committees/mrc/20180125/20180125-mrc-summarized-voting-report.ashx>

⁴ January 16 Letter

protecting competitive markets. The Board should not authorize its staff to pursue Capacity Repricing and instead revert to the stakeholders again or choose an option that is supported by a majority of members.

Very truly yours,

____/S/_____

W. Scott Harlan
Managing Partner
Rockland Capital, LLC

Liam T. Baker
Vice President
Eastern Generation

William Lee Davis
Chief Executive Officer
Lightstone Generation, LLC

Robert A. Weishaar, Jr.
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Michelle Gardner
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Marji Rosenbluth Philips
Director, RTO and Federal Services
Direct Energy

Robert P. O'Connell
Director, Regulatory Affairs and Compliance
Panda Power Generation Infrastructure Fund, LLC

Jane Quin
Director, Energy Markets Policy Group
Rockland Electric Company

CC: Mr. Andy Ott
Mr. Dave Anders