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STATE OF MARYLAND



PUBLIC SERVICE COMMISSION

August 12, 2014

Adrien Ford, Facilitator
Amanda Egan, Secretary
PJM Capacity Senior Task Force
955 Jefferson Avenue
Norristown, PA 19403

Re: Triennial Review of Reliability Pricing Model

Dear Adrien & Amanda:

The Maryland Public Service Commission (MD PSC) opposes the VRR Curve modifications proposed by PJM for implementation in the 2015 Reliability Pricing Model (RPM) Base Residual Auction (BRA). Three such modifications have been proposed: (i) Moving the Curve's "Point a" to the right to increase capacity price levels sooner if lower than 1 day in 10 required reliability reserve levels are threatened; (ii) Adopting a "convex" shape in place of the existing concave VRR Curve and (iii) Moving the entire curve an additional 1% to the right against the x axis graph of to be acquired supply levels. At present, the MD PSC opposes all three proposed adjustments for three principal reasons.

First, PJM simulations of the operation of the proposed new curve had it been in effect during the past three PJM BRA's (2015-2016, 2016-2017 & 2017-2018 delivery years) indicates that additional costs would be imposed upon electricity end users in the amount of \$1 to \$1.7 billion. This amount may be even higher if Generator bid behavior alters toward higher prices since larger quantities of capacity are to be acquired under the proposed curve. Second, while the proposed curve does acquire additional capacity (4-5%) and thus raises reliability levels, the additional reliability that it provides entirely exceeds that of the traditional 1 in 10 year reliability standard and is thus unnecessary given its very large cost.¹ PJM could only responsibly adopt such a Curve after holding a formal Stakeholder proceeding to significantly modify the application of its adopted 1 in 10 year reliability standard, and after the new, defined standard had been presented to and approved by FERC in evidentiary proceedings. Brattle, effectively and without acknowledging that it is doing so, is materially increasing this official PJM generation reliability standard, and using that new, much higher and undefined standard to justify it and PJM's proposed new, modified VRR Curve.²

Finally, Brattle's attempt to justify PJM's proposed VRR Curve, employing its Monte Carlo analysis, is not persuasive. Brattle argues that, as shown by PJM and RPM operations over the past seven years, that the risk of inadequate capacity due to a spike in load levels, generation unavailability, underestimation of Net CONE and other factors is sufficiently large that a higher reliability than that

¹ See The Brattle Group, Third Triennial Review of PJM's Variable Resource Requirement Curve (May 15, 2014) (hereafter Report).

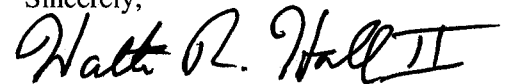
² Brattle, itself, it should be noted, does not recommend adoption of the third of the modifications stated above to the Curve, viewing it as expensive and without adequate benefit to end users. Report at pp. 67-69, 72.

traditionally applied is required to avoid service outage due to insufficient generation. This analysis is flawed for three reasons. First, a number of the simulations that Brattle employs in its analysis have inflated values as they reflect the period of PJM's development, the addition of substantial new load from newly added territories, and changes in market rules expanding or decreasing market participation of DR as the markets developed and matured. After seven years of operation, one would hope that the PJM markets are approaching if not well into a period of design stability that should reduce the swings of earlier periods. It is these "swings" in load and supply availability (often "swings" that have improved supply or reduced load and thus improved reliability) that are the asserted fact basis for Brattle's Monte Carlo simulation "shocks" whose inflated size produce its model's results. Second, Brattle itself states that its Monte Carlo analyses are only accurate if there exists no "bias in the [PJM] load forecast" or in Gross CONE, and yet over the past 6-7 years PJM's load forecast at the time of the BRA has exceeded actual delivery year load levels by approximately 5-6%. In addition, throughout its market's operation, PJM has inflated Gross & Net CONE values by employing level nominalization costing for fixed and capital costs. Brattle states this increases Gross and Net CONE by approximately 15%. Accordingly, even those conditions which Brattle sets for its analysis to be accurate and relied upon are not met.³

Finally, and perhaps of greatest importance, PJM's RPM operates to acquire capacity three years in advance of its need. This provides an adequate time period for PJM and government to react to evidence that supply is trending toward inadequacy to maintain the 1 in 10 year standard. In response, PJM could import more generation from outside PJM, retirements of generation could be delayed, short term new generation (such as CTs which can be installed in 6 months time) could be installed or other actions taken to avoid capacity shortage. Brattle's analysis fails to give any weight to this ability of PJM, government and industry to observe and correct generation inadequacy before it occurs, thus severely overstating the risk of inadequate generation which it asserts as justification for PJM's modified VRR Curve.

For all of the above reasons, and others not here fully set forth, the Maryland Public Service Commission opposes in its entirety the PJM proposed modifications to the VRR Curve at this time.

Sincerely,


Walter R. Hall, II

³ Report at pp. iv, xi & 30.