**UNITED STATES OF AMERICA**

**BEFORE THE**

**FEDERAL ENERGY REGULATORY COMMISSION**

PJM Interconnection, L.L.C. : ER15-739-000

**COMMENTS AND LIMITED PROTEST**

**SUBMITTED ON BEHALF OF**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

Pursuant to Rule 211 of the Federal Energy Regulatory Commission’s (Commission) Rules of Practice and Procedure, 18 C.F.R. 385.211, the PUCO submits the following com­ments and limited protest in response to PJM Interconnection, L.L.C.’s (PJM)’s proposed revisions to its Open Access Transmission Tariff (Tariff). The Public Utilities Commission of Ohio (PUCO) intervened in this matter on January 12, 2015.

# I. Introduction

In its filing, PJM seeks authorization for the ability to secure out-of-market capacity contracts outside of the Reliability Pricing Model (RPM) auctions. PJM maintains that the ability to enter into out-of-market contracts will alleviate resource adequacy concerns for the 2015/2016 Delivery Year. Any out-of-market generation contracts would be subject to review on a case-by-case basis and would require Commission approval.[[1]](#footnote-1)

The PUCO agrees that there may be legitimate challenges to PJM’s resource adequacy for the 2015/2016 Delivery Year, however, PJM has not adequately defined what the cost allocation and cost recovery mechanism will include. The PUCO urges the Commission to issue a deficiency letter and order PJM to clarify and define its cost recovery proposal in a transparent manner.

# II. Background

In support of its filing, PJM argues that it is facing legitimate reliability concerns for the 2015/2016 Delivery Year. PJM notes that it stands to lose approximately 11,769 megawatts as a result of generation retirements.[[2]](#footnote-2) Further, approximately 11,000 megawatts of Demand Resources stand in a precarious position due to the recent EPSA order, which found that the Commission lacks authority to prescribe compensation levels for retail customers.[[3]](#footnote-3) Because of these two factors, PJM fears that if it were to face poor generation performance similar to last winter, where forced outage rates topped out at 22 percent, PJM would be unable to serve its load.[[4]](#footnote-4)

To address resource adequacy concerns, PJM proposes to procure generation through out-of-market transactions with planned and/or existing generation resources that are not yet committed for the 2015/2016 Delivery Year.[[5]](#footnote-5) These procurements would occur outside the RPM auction process. The cost for these out-of-market capacity contracts would be collected pro rata from all LSEs, based on their daily unforced capacity obligations.[[6]](#footnote-6)

**III. Comments and Limited Protest**

The PUCO supports PJM’s efforts to safeguard resource adequacy for the 2015/2016 Delivery Year. However, PJM has not provided sufficient information on how it intends to recover any costs that may be associated with ensuring generation resource adequacy.

## A. PJM has demonstrated legitimate reliability concerns for the 2015/2016 Delivery Year.

PJM states that the 2015/2016 Delivery Year is notable in that an unprecedented level of generation retirements will be occurring. As a result of an anticipated net loss of generation, PJM will have 8,359 fewer megawatts of actual generation than it had for the 2013/2014 Delivery Year.[[7]](#footnote-7) In addition, because of the foreseeable risk regarding the treatment of Demand Resources as a result of the EPSA proceeding, PJM could face the removal of all Demand Resources for the 2015/2016 Delivery Year, which account for 11,257 megawatts.[[8]](#footnote-8) PJM’s reliability reserve margin would drop to 13.2 percent, well below the established reserve requirement of 15.6 percent.[[9]](#footnote-9)

The PUCO agrees with PJM that entering the 2015/2016 Delivery Year with a reliability target of less than 15.6 percent creates legitimate resource adequacy concerns. In light of recent experiences of extreme weather in both summer and winter seasons, coupled with higher forced outage rates, the PUCO opines that a low reserve margin creates serious reliability risks. It is reasonable for PJM to procure additional generation commitments as necessary for resource adequacy. These generation commitments will act to reduce the risk of a loss-of-load event in PJM’s territory.

## B. PJM has not shown that its anticipated cost recovery mechanism is just and reasonable.

Although PJM’s proposal highlights legitimate resource adequacy and reliability concerns for the 2015/2016 Delivery Year, PJM has not adequately demonstrated a just and reasonable cost recovery mechanism. As a state with a restructured electricity market, Ohio must receive clear guidance as to what type of cost LSEs will incur. Clarification is necessary to determine how the costs will be quantified once these out-of-market contracts are established.

Absent transparent and open cost-recovery guidelines, PJM is leaving Ohio’s electric consumers in a vulnerable position. Participants in Ohio’s standard service offers (default service) may not be able to quantify potential cost impacts that occur from PJM’s proposed out-of-market contracts. A lack of specificity may unintentionally create confusion for Ohio electric consumers that have electric service contracts extending through and beyond the 2015/2016 Delivery Year and the LSEs that are engaged in Ohio’s competitive retail electric markets. These concerns can be alleviated with additional, substantive information from PJM on how the costs associated with these out-of-market agreements will actually be collected.

### 1. PJM’s tariff modification lacks sufficient detail on cost recovery and does not indicate what type of charge out-of-market contracts will fall under.

PJM’s tariff provision creates the ability to enter into out-of-market agreements for capacity from planned or existing generation that has not otherwise committed for the 2015/2016 Delivery Year.[[10]](#footnote-10) The proposal indicates that costs associated with these agreements shall be allocated on a pro rata basis to all LSEs based on the LSEs’ daily unforced capacity obligations.[[11]](#footnote-11) However, this tariff language does not specify what type of charge PJM will use to classify these out-of-market agreements, and creates retail market uncertainties.

As examples of how these out-of-market agreements will be treated, PJM indicates that the cost allocation is consistent with transmission cost recovery.[[12]](#footnote-12) PJM adds that these out-of-market contracts are also analogous to make-whole payments for other out-of-market reliability contracts.[[13]](#footnote-13) By citing to two different methodologies, PJM casts uncertainty as to what these out-of-market contracts are intended for and the type of classification any costs associated with such contracts will fall under.

By citing to two different mechanisms, it appears that PJM is indicating that these out-of-market contracts could be characterized as a transmission charge for all LSEs or could also be similar to a reliability must-run contract. The PUCO urges clarification as to what type of charge PJM is seeking to establish, and what end-use customers are receiving in exchange for the charge. This uncertainty can and should be corrected.

### 2. PJM does not indicate whether cost allocation applies to FRR entities.

PJM explains that its proposal is intended to address resource adequacy concerns for the 2015/2016 Delivery Year. Specifically, PJM notes that its proposed out-of-market agreements will balance grid reliability. In its proposal, PJM points out that the out-of-market contracts ensure that the entire “PJM Region can continue to satisfy during the 2015/2016 Delivery Year the applicable reliability standards on resource adequacy…”.[[14]](#footnote-14)

While PJM notes that any costs associated with these out-of-market contracts will be allocated on a pro rata basis from all LSEs, PJM does not clarify whether this applies to both RPM and Fixed Resource Requirement (FRR) units, or just RPM units. Based on PJM’s assertion that the agreements are out-of-market and meant to ensure that the PJM Region satisfies reliability standards, as well as the fact that any costs will be collected from all LSEs, it seems that the cost recovery is meant to occur from both FRR and RPM entities. Nonetheless, the PUCO seeks confirmation that the costs of any payments for out-of-market contracts are borne by both FRR and RPM entities.

### 3. Waiting to review cost recovery mechanisms in subsequent filings harms competitive choice states.

The PUCO understands the need to ensure resource adequacy and reliability for the 2015/2016 Delivery Year and the importance of creating a cushion of flexibility in its out-of-market contracts. However, there is no reason that the cost recovery mechanism and classification of the type of charge these reliability agreements will employ cannot be established in this proceeding before PJM enters into specific out-of-market contracts. Participants in Ohio’s standard service offer retail auctions (default service) need to have transparency and certainty on exactly what type of charge is being proposed and the manner in which it will be collected from LSEs. If PJM fails to clarify its cost recovery methodology, these proceedings may unduly burden restructured electric states such as Ohio, as market participants may over-estimate risk in submitting offers in Ohio’s standard service offer auctions. Clarification also allows for retail electric consumers and LSEs with contracts that extend up to and beyond the 2015/2016 Delivery Year to determine whether any costs associated with PJM’s out-of-market contracts will impact their electric service prices. Accordingly, the PUCO urges the Commission to seek additional information from PJM.

# III. Conclusion

The PUCO agrees with PJM’s assessment that there are reasonable and legitimate reliability concerns for the 2015/2016 Delivery Year. PJM should have flexibility to procure additional resources to meet this need. However, the PUCO urges the Commission to issue a deficiency letter and order PJM to clarify and define the cost allocation and cost recovery parameters in a transparent manner. Without such information, it is not known to what extent PJM’s out-of-market contracts will impact Ohio’s standard service offers and its competitive retail electric market.

Respectfully submitted,

/s/ Jonathan J. Tauber

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**Attorney for the Public Utilities Commission of Ohio**

# IV. Certificate of Service

I hereby certify that the foregoing has been served in accordance with 18 C.F.R. Section 385.2010 upon each person designated on the official service list compiled by the Secretary in this proceeding.

/s/ Thomas W. McNamee

**Thomas W. McNamee**

Dated at Columbus, Ohio this January 20, 2015.

1. *PJM Interconnection, L.L.C.,* Docket No. ER15-739 (PJM Transmittal Letter at 10-12 (Dec. 24, 2014). [↑](#footnote-ref-1)
2. *PJM Interconnection, L.L.C.,* Docket No. ER15-739 (PJM Transmittal Letter at 5 (Dec. 24, 2014). [↑](#footnote-ref-2)
3. *Id.* at 2-3. See *Elec. Power Supply Ass’n v. FERC,* 753 F.3d 216 (D.C. Cir. 2014) (“EPSA”). [↑](#footnote-ref-3)
4. *PJM Interconnection, L.L.C.,* Docket No. ER15-739 (PJM Transmittal Letter at 9-10 (Dec. 24, 2014), Kormos Aff. ¶ 17-21. [↑](#footnote-ref-4)
5. *PJM Interconnection, L.L.C.,* Docket No. ER15-739 (PJM Transmittal Letter at 10-12 (Dec. 24, 2014). [↑](#footnote-ref-5)
6. *Id*. [↑](#footnote-ref-6)
7. Kormos Aff. ¶ 7. [↑](#footnote-ref-7)
8. Kormos Aff. at ¶ 14. [↑](#footnote-ref-8)
9. *Id*. [↑](#footnote-ref-9)
10. *PJM Interconnection, L.L.C.,* Docket No. ER15-739 (PJM Transmittal Letter at 10-12) (Dec. 24, 2014). [↑](#footnote-ref-10)
11. *Id.* at 11-12. [↑](#footnote-ref-11)
12. *PJM Interconnection, L.L.C.,* Docket No. ER15-739 (PJM Transmittal Letter at 12) (Dec. 24, 2014). [↑](#footnote-ref-12)
13. *Id*. [↑](#footnote-ref-13)
14. *Id*. at 11. [↑](#footnote-ref-14)