**UNITED STATES OF AMERICA**

**BEFORE THE**

**FEDERAL ENERGY REGULATORY COMMISSION**

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| PJM Interconnection, LLC | ::: | Docket No. ER16-76-000 |

**COMMENTS
SUBMITTED ON BEHALF OF**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

**November 4, 2015**

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**THE PUBLIC UTILITIES COMMISSION OF OHIO**

 The Public Utilities Commission of Ohio (PUCO), pursuant to Section 205 of the Federal Power Act, respectfully submits the following Comments to the Federal Energy Regulatory Commission (Commission) in response to PJM Interconnection, LLC’s (PJM) October 14, 2015 proposed revisions to PJM’s Open Access Transmission Tariff (Tariff) Attachment K- Appendix and the identical provisions of Schedule 1 of the Amended and Restated Operating Agreement (Operating Agreement). PJM proposes modification to offer cap and price formation provisions in advance of the upcoming winter season.

The Commission should adopt PJM’s proposal. The proposed Tariff revisions represent an appropriate balance between reliability and price. PJM’s proposal provides certainty to generators that their units will not operate at a loss during weather events when fuel supplies may be scarce. As a result, system reliability will be increased during critical operating periods. The PUCO recommends that the Commission approve PJM’s filing.

# BACKGROUND

 In accordance with PJM’s Tariff requirements, market sellers of generation resources submit two types of energy offers: market-based offers and cost-based offers. Both types of offers are subject to an offer cap of $1,000/MWh. Market sellers are not permitted to submit offers in excess of the offer cap. While PJM states that historically, cost-based offers did not approach the cap,[[1]](#footnote-1) the events of the polar vortex in January of 2014 caused market sellers to incur natural gas costs that raised generation marginal costs above the $1,000/MWh threshold. Market sellers of capacity resources were forced to sell energy into the day-ahead market at prices that did not reflect their true marginal costs of operation in the real-time energy market, contrary to the basic principles of PJM’s energy market design.[[2]](#footnote-2)

 Accordingly, PJM recommends the following Tariff changes:

* Market sellers of generation resources may submit cost-based offers for energy consistent with PJM’s cost development and applicable fuel cost policy. Those offers will be allowed to set the Locational Marginal Price (LMP) up to, but not above, $2,000/MWh.[[3]](#footnote-3)
* Market-based offers above $1,000/MWh but less than $2,000/MWh can be less than or equal to the market seller’s cost-based offer in this price range. If the market seller’s cost-based offer rises above $2,000/MWh, the market-based offer remains capped at $2,000/MWh. Market-based offers will be allowed to set LMP up to, but not above, $2,000/MWh.[[4]](#footnote-4)
* Market sellers with demonstrated cost-based offers above $2,000/MWh will recover those costs through make-whole payments, subject to review by PJM and its Independent Market Monitor (IMM). [[5]](#footnote-5)

# COMMENTS

 The Commission should approve PJM’s recommended Tariff revisions. PJM’s proposal provides certainty to generation units during extreme weather events when fuel supplies may be scarce and ensures reliability during periods of peak demand. While PJM’s proposal takes a necessary step forward, it is imperative that both the IMM and PJM continue to review out-of-market cost-based offers.

## A. PJM’s proposal reasonably balances cost and reliability objectives.

 Prohibiting generation units from recovering their legitimate marginal costs of production is inconsistent with transparent energy market design protocol. Although gen­eration units should be able to recover legitimate marginal costs, it is important that the cost impacts to end-use load customers be taken into account when modifying energy-market offer caps.

PJM’s proposal balances both of these objectives. Generation units will not be placed in situations where they may have to operate at a loss, while still protecting consumers from unlimited and unjustified price increases. PJM proposes to increase transparency with regard to price by reporting any offers in excess of $1,000 to the Commission at the end of each winter season. The PUCO recommends that PJM report any offers in excess of $1,000/MWh bi-annually during the calendar year because extreme weather is not just limited to a winter event. PJM should file a report with the Commission after the winter season and after the summer season.

## B. Proposal Increases Reliability

 A more flexible energy market offer cap will allow sellers of generation to recover their legitimate costs. Recovery of legitimate costs is necessary in order to meet reliabil­ity objectives, particularly during times of peak demand. Placing generation units in a scenario where they must choose between showing up and operating at a loss creates a precarious reliability position. PJM’s proposal will allow generating units to offer to run with the knowledge that their costs will be recovered pursuant to PJM’s proposed Tariff. The availability of more generation units will result in increased power supply available to serve load during times of peak demand or system stress. Ultimately, consumers are better served by a strengthened power grid during critical periods.

## C. Proposal Reduces Uplift

 PJM’s proposal takes an important step forward in reducing the amount of make-whole or uplift payments to generating units. Uplift will be reduced by allowing genera­tion units to receive compensation through LMP charges reflecting actual market condi­tions up to the proposed $2,000/MWh cap. Only cost-based offers that exceed the pro­posed cap would be eligible for uplift.

 Ensuring actual cost recovery by generation units is consistent with PJM’s cost development guidelines and the IMM’s fuel cost policy.[[6]](#footnote-6) While PJM’s proposal takes a necessary step forward, it is crucial that both the Independent Market Monitor and PJM continue to review out-of-market offers to limit energy uplift charges.

# CONCLUSION

 The Commission should approve PJM’s proposal. The PUCO appreciates the efforts of PJM and its stakeholders to reach a consensus position on energy market offer caps prior to the upcoming winter season. PJM’s recommended Tariff revisions appropriately balance PJM’s need for reliability while recognizing end-use customer con­cerns associated with energy price spikes during periods of extreme weather. Further, PJM’s proposal sends transparent price signals while limiting uplift to the extent possible. Finally, the PUCO recommends that PJM report any offers in excess of $1,000/MWh bi-annually during the calendar year after the winter and summer seasons. The PUCO looks forward to providing comments on these matters as the Commission continues its review of price formation in energy markets.

Respectfully submitted,

*/s/ Thomas W. McNamee*

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**Public Utilities Commission of Ohio**

# 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 November 4, 2015.

1. PJM Interconnection, LLC, Docket No. ER16-76-000, Filing to Increase Energy Offer Cap (Transmittal Letter at 3-4) (Oct. 14, 2015). [↑](#footnote-ref-1)
2. *Id.* [↑](#footnote-ref-2)
3. *Id.* at 6. [↑](#footnote-ref-3)
4. PJM Interconnection, LLC, Docket No. ER16-76-000, Filing to Increase Energy Offer Cap (Transmittal Letter at 6) (Oct. 14, 2015). [↑](#footnote-ref-4)
5. *Id*. [↑](#footnote-ref-5)
6. On September 24, 2015 the IMM issued fuel cost guidelines to provide guidance to generators when developing fuel cost policies. See: [http://www.monitoringanalytics.com/reports/Market\_Messages/ Messages/IMM\_Fuel\_Cost\_Policy\_Guidelines\_20150924.pdf](http://www.monitoringanalytics.com/reports/Market_Messages/%20Messages/IMM_Fuel_Cost_Policy_Guidelines_20150924.pdf). [↑](#footnote-ref-6)