

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.)	Docket No. EL23-19-000
PJM Interconnection, L.L.C.)	Docket No. ER23-729-000

**COMMENTS OF THE PUBLIC UTILITIES COMMISSION OF OHIO’S
OFFICE OF THE FEDERAL ENERGY ADVOCATE**

On December 23, 2022, PJM Interconnection, L.L.C. (“PJM”), pursuant to sections 205 and 206 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d and 824e, and the regulations of the Federal Energy Regulatory Commission (“FERC” or the “Commission”), 18 C.F.R. § 35.13, filed a proposal to revise the definition of Locational Deliverability Area Reliability Requirement (“LDARR”) in the PJM Open Access Transmission Tariff and manuals. The proposal stemmed from PJM’s 2024/2025 Base Residual Auction (“BRA”), which PJM asserts, absent the proposed changes, would result in unjust and unreasonable results because of an anomaly in the calculation of the LDARR under which PJM currently operates. The issue surfaced when Planned Generation Capacity Resources, including large thermal resources and Intermittent Resources, were modeled in a small Locational Deliverability Area (“LDA”) but did not participate in the auction.

PJM filed applications under both sections 205 and 206 of the FPA to give latitude to the Commission to adopt changes to PJM’s tariff with any amendments deemed necessary. In its filings, PJM stated its tariff needs to be changed because the absence of anticipated auction bidders distorted an algorithm used to calculate the LDARR and would have inflated prices in

the Delmarva Power & Light South (“DPL-S”) LDA by 400 percent. PJM suspended release of the auction results, pending a response from FERC on its proposed changes.

The Public Utilities Commission of Ohio’s (“PUCO”) Office of the Federal Energy Advocate (“Ohio FEA”) takes exception to PJM’s proposal to retroactively adjust pricing mechanisms to the detriment of bidders in the affected LDA but also to the potential detriment of all bidders in PJM auctions if those auctions produce results different from PJM’s expectations. Uncertainty in the single auction at issue here is problematic; creating the possibility of spreading the uncertainty in the future is a disservice to the entirety of the PJM wholesale electricity marketplace. What PJM posits as a narrowly constructed change to its tariff to correct a problem could be anything but. As described later in this filing, the Ohio FEA urges the Commission to address this issue in a way that would eliminate the problem going forward.

I. BACKGROUND

Under PJM’s existing tariff and manuals, the LDARR used in the BRA is a function of forecasted loads and expected supply resources for each LDA. While some resources within PJM have a must-offer requirement, others do not. Specifically, Intermittent Resources and Planned Generation Capacity Resources are not required to bid, owing to the possibility that they might be unable to meet their commitments in the capacity market. Nevertheless, PJM’s calculation of the LDARR for DPL-S incorporated a significant amount of Planned Generation Capacity Resources – including large thermal resources and planned Intermittent Resources – for the 2024/2025 BRA in the DPL-S LDA, based on expected in-service dates in the resources’ Interconnection Service Agreements. The inclusion of these anticipated resources, as factored into the LDARR, would force the auction to over procure capacity at distorted, high prices to account for (1) potential forced outages of large Planned Generation Capacity Resources or (2)

seasonal variations and availability of Intermittent Resources. So, while the offer window for the 2024/2025 BRA closed on December 13, 2022, PJM has chosen not to conclude the auction and post clearing prices, citing tariff language that allows it to evaluate Sell Offers after the offer window closes. But it is not the Sell Offers at issue here. It is the inaccurately forecasted loads and resources that led to the unexpected auction results.

PJM comes to FERC with requests to change its tariff and manuals to accommodate what it considers a remedy:

PJM proposes to prospectively include an additional factor to be considered in the optimization algorithm when evaluating the Sell Offers and other inputs for the 2024/2025 BRA before the results are determined and the capacity awards are made. Absent the ability to include this additional factor in the optimization algorithm, PJM would be forced to utilize a materially inaccurate Locational Deliverability Area Reliability Requirement that does not reflect the actual capacity needs of the particular LDA in question and would result in an unjust and unreasonable outcome.¹

PJM's proposed definition of LDARR would enable it to exclude Planned Generation Capacity Resources that do not participate in the BRA where the LDARR materially increases, specifically by more than one percent, from the prior year due to the addition of such resources.² PJM asserted that, in light of the narrow circumstances, its proposed solution would appropriately resolve the identified problem "without the highly disruptive effect of having to reopen the auction bidding window across the entirety of PJM."³

¹ PJM BRA Section 206 filing at 4.

² *Id.* at 5.

³ *Id.* at 31.

PJM's judgment that the auction results for the DPL-S LDA are unjust and unreasonable has led to the unfortunate consequence that **no** Capacity Market Seller for the entire PJM region, including all such sellers outside of the relatively tiny DPL-S LDA, has, to this date, been awarded a capacity commitment for the 2024/2025 BRA. Further, PJM sees the potential for the DPL-S LDA situation to be repeated and seeks FERC approval to tinker retrospectively with the outcome of its auctions if a similar situation happens in the future. The market uncertainty that could come from such an open-ended and indefinite ("we will know it if and when we see it") approach is unacceptable.

II. COMMENTS

While the Ohio FEA has serious concerns with PJM's proposed adjustment to the LDARR through the optimization algorithm, if the Commission determines this adjustment should be made, it should apply only to the 2024/2025 BRA. As explained by PJM, the filings currently before the Commission are the result of an aberrant result that PJM is now seeking to remedy after the fact. In the Ohio FEA's opinion, any post-hoc solution is likely to be suboptimal. The Ohio FEA is concerned that granting broad and vaguely-defined authorization to PJM to modify important auction parameters *after* bids have already been received lacks transparency and may potentially undermine confidence in wholesale markets.

Going forward, PJM should propose a more durable solution to ensure that future post-auction modifications to the LDARR can be avoided. It is our understanding that a significant amount of Planned Generation Capacity Resources in the DPL-S LDA that were expected to participate in the auction based on the in-service dates specified in those resources' Interconnection Service Agreements chose not to offer in the BRA even though the resources were included in the calculation of the LDARR, thereby producing an anomalous result.

To avoid this situation in the future, we would propose that all units that are exempted from the must-offer requirement in the capacity market, such as new entrants and intermittent resources, be required to notify PJM of their intention to bid in the BRA *prior* to the publication of the auction planning parameters, so these parameters can transparently reflect true supply and demand conditions, similar to how Fixed Resource Requirement resources are required to be designated before a BRA takes place. Allowing PJM to have a blanket authorization (based on a one percent LDARR shift) to retroactively modify auction results due to observed resource bidding behavior lacks transparency and potentially undermines confidence that the auction results are just and reasonable.

Additionally, the Ohio FEA urges the Commission to take prompt action in resolving the identified issue with the 2024/2025 BRA. PJM's capacity auction schedule has already suffered from a series of delays as the Commission was considering filings related to PJM's Minimum Offer Price Rule. The PUCO repeatedly warned FERC that these delays would have significant consequences on states like Ohio that depend on PJM's capacity construct to send price signals to market participants and to form the foundation upon which retail rates can be established.⁴

Ohio's regulated electric distribution utilities ("EDUs") rely upon a competitive bid auction process to procure generation service for non-shopping customers, similar to programs in other retail choice jurisdictions. These auctions ensure the availability of reliable electricity service at competitive prices for customers who do not avail themselves of the opportunity to shop for their own supplier. Ohio's auctions are nondiscriminatory and are not preferential to any resource type. The auctions are held *after the capacity price has been established by PJM for the relevant delivery year*, so suppliers can incorporate the costs of the capacity obligation into

⁴ FERC Docket No. EL16-49 and EL18-178 (Consolidated), Request for Rehearing of the PUCO, January 21, 2020, at 26; FERC Docket No. ER18-1314, Comments of the PUCO, June 22, 2020, at 14-15.

their bids. An independent auction administrator conducts the auctions on behalf of the distribution utility and the PUCO employs an independent consultant to ensure the outcomes are competitive and consistent with wholesale market conditions. The resulting auction prices establish the default service “price to compare” that also serves as an important competitive benchmark against which other offers available in the retail marketplace can be measured.

Due to the lack of a FERC-approved PJM capacity rate, the PUCO was forced to significantly modify and truncate the default service auction schedules of the Ohio EDUs by eliminating multi-year procurements, which deprived Ohio ratepayers of the benefits associated with staggering and laddering auction products of multiple durations, as the PUCO had originally contemplated when it approved the EDUs’ default service proposals.

Now, just as PJM was on track to hold a series of catch-up auctions to re-establish the three-year forward-looking nature of the capacity construct, we are yet again faced with another delay, one which carries the same damaging consequences that PUCO has already repeatedly warned against. This delay is already imperiling Ohio’s auctions for default service, even before FERC has had time to evaluate and respond to PJM’s filings.

Once again, we ask FERC to act decisively and swiftly to minimize the disruptions that will occur with further delays to a process that has already been irreparably delayed and to restore order after years of uncertainty.

III. CONCLUSION

Guessing should not be part of PJM’s preparations for a BRA. Nor is it necessary. Rather than continuing a problematic practice of assuming which resources will participate in a BRA, PJM should communicate with those which do not have a must-offer requirement before establishing auction parameters. With more accurate load and supply characteristics established

before bidding windows open, PJM can avoid the precarious alternative of reworking results after the window closes. The Commission has an opportunity to restore confidence in wholesale markets. Instead of adopting proposals that create uncertainty, FERC could order a quick fix for the DPL-S LDA and eliminate the potential of a going-forward repeat of the situation by directing PJM to secure more reliable information before any auctions. The Ohio FEA encourages the Commission to take this more reasoned approach and to do so quickly. Delayed 2024/2025 BRA results have a spillover effect that impacts Ohio's auctions for default service.

Respectfully submitted,

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On Behalf of the Federal Energy Advocate
The Public Utilities Commission of Ohio

January 20, 2023

CERTIFICATE OF SERVICE

I hereby certify that I have on this date caused a copy of the foregoing document to be served on each person included on the official service list maintained for this proceeding by the Commission's Secretary, by electronic mail or such other means as a party may have requested, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010. Dated this the 20th day of January 2023, at Columbus, Ohio.

/s/ Thomas G. Lindgren
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**This foregoing document was electronically filed with the Public Utilities
Commission of Ohio Docketing Information System on**

1/20/2023 3:57:07 PM

in

Case No(s). 22-7000-EL-FAD

Summary: Comments of the Public Utilities Commission of Ohio's Office of the
Federal Energy Advocate electronically filed by Mrs. Kimberly M. Naeder on behalf
of Ohio Federal Energy Advocate