

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Grid Resilience in Regional Transmission)
Organizations and Independent System) **Docket No. AD18-7-00**
Operators)

**JOINT REPLY COMMENTS
OPPOSING PJM ENERGY MARKET PRICING PROPOSAL**

Pursuant to the Federal Energy Regulatory Commission’s (“Commission”) January 8, 2018 order initiating the above-captioned proceeding,¹ [the Advanced Energy Economy], [American Municipal Power, Inc.], [American Wind Energy Association], [Mid-Atlantic Renewable Energy Coalition], the Natural Resources Defense Council, NextEra Energy Resources, LLC, [the Office of the People’s Counsel for the District of Columbia], and the PJM Industrial Consumers Coalition (“Joint Commenters”) submit the following reply to the comments and responses of PJM Interconnection, L.L.C. (“PJM”).² The Joint Commenters represent a diverse set of interests, but share the view that the Commission should not grant PJM’s request to bypass the stakeholder process by directing PJM or any other region to submit a proposal to implement the inflexible unit pricing reforms that, as discussed below, have been placed on hold by PJM’s own Board of Managers.

PJM makes a number of proposals in its comments on a far-ranging set of issues, some limited to the PJM region and others for implementation across the country. While each of the Joint Commenters have varying views regarding a number of PJM’s proposals, and in some

¹ *Grid Reliability and Resilience Pricing*, Order Terminating Rulemaking Proceeding, Initiating New Proceeding, and Establishing Additional Procedures, 162 FERC ¶ 61,012 (2018).

² Comments and Responses of PJM Interconnection, L.L.C., Docket No. AD18-7-000 (filed March 9, 2018) (“PJM Comments”).

cases are submitting separate comments addressing those views, we join in these reply comments to express our combined concern with one aspect of PJM’s filing: the request that the Commission direct regional transmission operators and independent system operators (“RTOs/ISOs”) to change existing energy market pricing rules governing when and how generating units are eligible to set locational marginal prices (“LMPs”).³ PJM raises this issue in response to the Commission’s question as to how existing market-based mechanisms currently address resilience threats. PJM answers that question by stating that that its energy, capacity, and ancillary services markets work together to ensure a resilient bulk energy system.⁴ The Joint Commenters wholeheartedly agree with PJM’s conclusion that, where resilience requirements can be clearly identified, it is preferable to meet those requirements through market-based solutions that allow resources to compete to achieve the stated objectives at the lowest cost to consumers.⁵ However, PJM goes on to argue that its current energy market pricing rules are inadequate to “incentivize operational characteristics that support reliability and resilience.”⁶ PJM therefore asks the Commission to direct it to allow all PJM-scheduled units to set the LMP and include start-up and no-load costs in the LMP regardless of their operating status,⁷ and suggests that this pricing change be undertaken by all RTOs/ISOs.⁸ The Joint Commenters

³ PJM Comments at pg. 78-80.

⁴ *Id.* at pg. 66-68.

⁵ *Id.* at pg. 68.

⁶ *Id.*

⁷ *Id.* at pg. 78-80 (citing *Proposed Enhancements to Energy Price Formation*, dated Nov. 15, 2017, available at <https://www.pjm.com/-/media/library/reports-notices/special-reports/20171115-proposed-enhancements-to-energy-price-formation.ashx> (“November 2017 Price Formation White Paper”).

⁸ *Id.* at 68.

strongly disagree with PJM that such pricing changes are either necessary or appropriate and oppose any Commission action on this aspect of PJM's comments.

PJM's request for a Commission directive on energy market pricing rule changes is essentially the same as a request that it made to the Commission in Docket No. RM18-1-000. There, PJM asked the Commission to establish a "deadline"⁹ for RTOs/ISOs to submit energy market pricing proposals including its "conceptual proposal"¹⁰ to expand price-setting eligibility for inflexible generators dispatched by PJM.¹¹ PJM revives that request in this proceeding, again asking the Commission to "direct PJM to submit in a timely manner" its pricing proposal notwithstanding PJM's acknowledgement that it is "proceeding on price formation market reforms in its stakeholder process in any event with the plan for filing later in 2018."¹²

After submission of the PJM Comments, however, the PJM Board of Managers altered course on April 11, 2018, in a letter that directed its staff to focus near-term attention on other energy market issues. In that letter, provided in Attachment A, the Board stated:

Discussion on addressing [energy and reserve market pricing in PJM] has centered on two distinct price formation initiatives. The first, about which PJM staff published a paper in November of 2017, deals with how LMPs are calculated. Specifically, PJM staff believes the LMP calculation can be improved to better support the efficient, least production cost commitment and dispatch solution while minimizing out-of-market uplift payments. However, the Board is well aware of questions stakeholders have raised regarding this proposal. The Board has listened to stakeholders and appreciates that changes to the LMP calculation require careful consideration. The Board also recognizes that a distinct subset of this issue, namely, implementation of PJM's proposed integer relaxation proposal applied only to the limited category of units that FERC has indicated are current candidates for price formation reform (fast start resources), is already before FERC awaiting action in the fast-start pricing docket (EL18-34-

⁹ Initial Comments of PJM Interconnection, L.L.C. on the United States Department of Energy Proposed Rule, Docket No. RM18-1-000, at pg. 48 (filed Oct. 23, 2017).

¹⁰ *Id.* at 41.

¹¹ *Id.* at 43-46.

¹² PJM Comments at pg. 80.

000). The Board therefore believes that in the near term, PJM and stakeholders should continue to work on implementation details associated with fast-start pricing as the FERC docket moves toward resolution.¹³

In response to this direction, PJM staff has redirected attention in the stakeholder process to the rules under which PJM procures and prices reserves, tabling discussion of its inflexible unit pricing proposal. However, PJM has not withdrawn the portions of its Comments in this proceeding to reflect the change in process ordered by the PJM Board. In light of this change in direction by the PJM Board, there is no basis for granting PJM's request in this docket for a Commission directive to implement "in a timely manner" the very proposal that the PJM Board has determined is not ripe for consideration.

Moreover, even if the Commission were to overlook the PJM Board's recent decision, the PJM Comments fail to justify Commission action on this issue. The Joint Commenters addressed the merits of PJM's inflexible unit pricing proposal in detail in comments submitted in Docket No. RM18-1-000.¹⁴ Rather than repeating those arguments here, the Joint Commenters provide a brief summary below and include those comments in Attachment B for consideration within the record of this proceeding. As noted in that filing:

- PJM has failed to demonstrate that its existing energy market pricing rules are no longer just and reasonable. The presence of inflexible generating units unwilling or unable to respond to price signals inherently creates the possibility of market distortion in a market like PJM's that relies on price signals to incent efficient behavior. Keeping inflexible units whole through uplift instead of allowing them to set LMP when at minimum load protects against this potential market distortion. For this reason, every RTO/ISO region uses some combination of pricing restrictions and uplift payments for inflexible generating units.¹⁵

¹³ Letter to stakeholders from the PJM Board of Managers, dated April 11, 2018, at pg. 1 (available at <http://www.pjm.com/-/media/committees-groups/task-forces/epfstf/postings/20180412-pjm-board-letter-regarding-energy-market-price-formation.ashx?la=en>) (emphasis added; internal footnotes deleted).

¹⁴ Joint Reply Comments Opposing Use of this Rulemaking to Adopt PJM Pricing Concept, Docket No. RM18-1-000 (filed Nov. 7, 2017) ("RM18-1 Reply").

¹⁵ RM18-1 Reply at pg. 9-10.

- Exceptions to pricing restrictions applicable to inflexible units are limited to fast-start resources, the entire output of which is marginal in the short-run timeframe of commitment and dispatch decisions. In contrast to fast-start resources that tend to be marginal in peak hours, inflexible resources operating at minimum load during off-peak hours are not marginal in any sense: if load were slightly higher, the inflexible unit would not operate at a higher level; and, if off-peak load were slightly lower, the inflexible unit would still not turn off. The reason that inflexible slower-starting units stay on during off-peak hours (even if losing money at that time) is not because they are needed to serve load at that time, as suggested by PJM,¹⁶ but because their inflexibility requires them to continue operating in order to be online to sell energy at higher prices during peak hours.¹⁷
- PJM’s inflexible unit pricing proposal would eliminate the current price signal to flexible units to reduce output when they are displaced by inflexible units with minimum operating levels. Sending the correct price signal to units that are actually responsive to changes in LMPs is the engine that drives behavior that is efficient and consistent with reliable operation in every Commission-jurisdictional energy market, and is the very reason slower-starting inflexible units are not permitted to set LMPs under current market rules. Compounding this problem, inflexible resources would have greater incentives to self-schedule to capture the resulting higher LMPs, further displacing flexible resources forced to ramp down to accommodate the inflexible units.¹⁸
- PJM’s solution to anticipated over-generation by flexible resources is to provide a new compensation mechanism to reward those resources for reducing output to make room for inflexible units.¹⁹ PJM provides no details of how that compensation would be provided other than it is “evaluating the need” for a load-following product.²⁰ As with the inflexible unit pricing proposal itself, insufficient information has been provided for the Commission (much commenters) to understand how payments to flexible resources would be structured, whether they would be effective in managing over-generation, or what additional costs they would impose on consumers.²¹

PJM does not acknowledge, much less address, these arguments in its comments in this proceeding. PJM also fails to acknowledge that its market monitor, as well as RTOs/ISOs in

¹⁶ PJM Comments at 80 (“The generating unit is paid its costs outside of the market even though it is needed to provide locational Operating Reserves or to serve load, and thus should be contributing to price formation. PJM must enhance market pricing so that prices accurately reflect the cost of serving load.”).

¹⁷ RM18-1 Reply at pg. 13-14.

¹⁸ RM18-1 Reply at pg. 15-16.

¹⁹ November 2017 Price Formation White Paper at pg. 17.

²⁰ *Id.*

²¹ RM18-1 Reply at pg. 16-17.

other regions and their market monitors, oppose PJM's inflexible unit pricing proposal.²² Instead, PJM cites uplift statistics indicating a spike in uplift charges this past winter.²³ Yet PJM provides no information as to how, if at all, its inflexible unit pricing proposal would impact uplift charges other than one conclusory sentence: "PJM must enhance market pricing so that prices accurately reflect the cost of serving load."²⁴ That one sentence provides no reasonable (much less legal) basis to alter energy market pricing rules that are universal across all the RTO/ISO markets.

For the foregoing reasons, the Commission should not direct PJM or any other RTO/ISO to implement PJM's inflexible unit pricing proposal or other energy market design changes in its evaluation of resilience issues. To the extent PJM or any other region wishes to pursue energy market pricing reforms, it can do so in a filing before the Commission after having received stakeholder input through normal processes.

Respectfully submitted,

Jennifer Chen
Attorney
Sustainable FERC Project, Natural
Resources Defense Council
1152 15th Street NW, Suite 300
Washington, DC 20005
(202) 289-2399
jchen@nrdc.org

Counsel to the Sustainable FERC Project

W. Mason Emmett
Senior FERC Counsel
NextEra Energy Resources, LLC

²² [string cite].

²³ PJM Comments at pg. 79.

²⁴ *Id.* at pg. 80.

801 Pennsylvania Avenue, NW, #220
Washington, DC 20004
(202) 346-3349
mason.emnett@nexteraenergy.com

*Counsel for NextEra Energy Resources,
LLC*

Susan E. Bruce
McNees Wallace and Nurick LLC
100 Pine Street
Harrisburg, PA 17108-1166
(717) 237-5254
sbruce@mceeslaw.com

*Counsel for the PJM Industrial Customer
Coalition*

Dated: May 9, 2018