

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

PJM Interconnection, L.L.C.

)

Docket No. EL19-58-002

**ANSWER OF
THE ORGANIZATION OF PJM STATES, INC.**

Pursuant to Rule 213 of the Federal Energy Regulatory Commission’s (“Commission”) Rules of Practice and Procedure, 18 C.F.R. § 385.213, the Organization of PJM States, Inc. (“OPSI”) hereby submits this Answer to the comments submitted by PSEG Services Corporation (“PSEG”) and the PJM Power Providers Group (“P3”) and the Electric Power Supply Association (“EPSA”) (jointly, “P3/EPSA”) in the above-captioned docket on July 28, 2020 and July 27, 2020, respectively.¹

I. SUMMARY OF PSEG AND P3/EPSA COMMENTS

PSEG states that it supports the substantive aspects of the energy and operating reserve market revisions approved in the Commission’s May 21, 2020 Order.² But, PSEG opposes PJM’s proposal to set May 1, 2022 as the effective date for those energy and operating reserve market revisions.³ PSEG requests that the Commission “direct PJM to provide a detailed

¹ OPSI believes it may file this Answer to comments pursuant to Commission Rule 213, 18 C.F.R. § 385.213 (a)(3). However, to the extent that the Commission may consider this a prohibited Answer to the limited protest portion of PSEG comments, good cause exists to permit an exception to that prohibition and OPSI hereby so moves. Further, to the extent that the Commission may deem this Answer reply comments to the comments, OPSI requests permission to respond to the comments beyond the July 27th comment date. This Answer will not delay proceedings, will assist in the Commission’s decision-making process, and will clarify the important technical questions at issue in this matter.

² PSEG, at 1 (referring to *PJM Interconnection, L.L.C.*, 171 FERC ¶ 61,153 (“May 21 Order”)).

³ *Id.*, at 3.

timeline on each of the proposed reforms approved in the May 2020 Order and proposed in the Compliance Filing, including a reasonable implementation date for each.”⁴

P3/EP SA urge the Commission to accept PJM’s compliance filing,⁵ but take issue with the implementation date of May 1, 2022 for the energy and operating reserve market revisions approved by the Commission in its May 21 Order.⁶ Specifically, P3/EP SA argue that the Commission should require PJM to implement the changes proposed in PJM’s compliance filing on May 21, 2021, or, at latest, on October 15, 2021.⁷ If the Commission does not reject PJM’s implementation schedule, P3/EP SA urges the Commission to, at a bare minimum, impose a reporting obligation upon PJM to explain the status of its software implementation efforts by May 21, 2021. If, at that time, PJM still proposes to delay implementation until May 1, 2022, P3/EP SA proposes it should be required to explain why.⁸

II. OPSI POSITION AND RECOMMENDATION

OPSI recommends that the Commission reject both PSEG and P3/EP SA’s requests regarding the effective date for the Commission-approved energy and operating reserve market changes and approve PJM’s proposed May 1, 2022 effective date.⁹

OPSI has consistently expressed concern regarding unjust and unreasonable double recovery of revenue as it relates to changes in the capacity and energy markets.¹⁰ In its June 23, 2020 letter to PJM President and CEO, Manu Asthana, OPSI recommended selection of June 1,

⁴ *Id.*, at 6.

⁵ *PJM Interconnection, L.L.C.*, Docket Nos. EL19-58-002; ER19-1486-00 Compliance Filing, dated July 6, 2020 (“PJM Compliance Filing”).

⁶ P3/EP SA, at 5.

⁷ *Id.*, at 8.

⁸ *Id.*

⁹ In the event the Commission does not further consider the May 21 Order. *See Notice of Denial of Rehearings by Operation of Law and Providing for Further Consideration*, 172 FERC ¶ 62,029 (July 20, 2020).

¹⁰ See OPSI’s May 15, 2019 Comments and July 12, 2019 Answer in this proceeding where OPSI focused exclusively on this issue.

2022 as the effective date of the energy and operating reserve market changes for precisely this reason.¹¹ OPSI's position, consistent with the Commission's direction in its May 21 Order,¹² would harmonize the energy and operating reserve market changes with PJM's capacity construct with a June 1, 2022 implementation date of a forward looking E&AS offset.

In its July 6, 2020, compliance filing, PJM requested that the Commission establish May 1, 2022 as the effective date for the energy and operating reserve market revisions.¹³ Although PJM's proposed effective date is one month shy of OPSI's recommended date, PJM's proposal reasonably achieves the harmonization required by the Commission¹⁴ and ignored by PSEG and P3/EPISA.

The Commission found in its May 21 Order that PJM's proposed changes to the energy and operating reserve market will "fundamentally change[] the design of the PJM reserve market in a way that will impact the amount of reserves procured, the price paid for those reserves, related energy prices, and energy and ancillary services revenues received by resources participating in those markets."¹⁵ The Commission stated clearly, "We find, pursuant to section 206 of the FPA, that the reserve market changes implemented herein have rendered PJM's methodology for calculating the E&AS Offset used in its capacity market unjust and unreasonable."¹⁶ In short, the implementation of those energy and operating reserve market changes will render locked-in capacity auction prices based on the historical approach to the E&AS offset calculation unjust and unreasonable, beginning on the effective date of those energy and operating reserve market changes.

¹¹ See OPSI letter to PJM President and CEO, Manu Asthana (June 23, 2020).

¹² May 21 Order, at P 2.

¹³ PJM Compliance Filing, at 14.

¹⁴ See *infra*, Section III.

¹⁵ May 21 Order, at P 310 (emphasis added).

¹⁶ *Id.*, at P 308 (emphasis added).

Any effective date for the energy and operating reserve market changes prior to June 1, 2022 will result in greater E&AS revenue than had been included in the establishment of capacity auction prices, effectively creating an unjust and unreasonable double recovery of the increased shortage revenue that the energy and operating reserve market changes are designed to produce. The base residual auction for all delivery periods prior to June 1, 2022 has already been held and a base residual auction clearing price for those delivery periods has already been established. The capacity auction is designed to produce, for the marginal unit that clears the auction, revenue in an amount that, when added to that unit's net energy and ancillary services revenue,¹⁷ is equal to the revenue needed to maintain that unit in the market or induce its entry when needed. If that marginal unit, and all inframarginal units, subsequently obtain increased revenue from PJM's energy and operating reserve market changes that had not been part of the E&AS offset calculation, they will be obtaining a double payment for the resource adequacy (shortage prevention) insurance attributes that they provide. Stated otherwise, if PJM's energy and operating reserve market changes are implemented prior to June 1, 2022, electricity consumers will be forced to pay double (once through the already-established capacity clearing price and once through the energy and operating reserve market revisions) for the resource adequacy attributes that the established capacity auction clearing price for those delivery years was designed to produce.

III. PSEG AND P3/EPSC's RECOMMENDATIONS SHOULD BE REJECTED

PSEG and P3/EPSC acknowledge that the Commission directed PJM to propose an effective date that will both "allow it sufficient time to implement the revisions directed herein,

¹⁷ Operating reserve revenue is a large part of ancillary services revenue.

including any necessary software changes,”¹⁸ and “appropriately harmonize[] the revisions here with ongoing revisions in the other [Minimum Offer Price Rule] proceeding.”¹⁹

Yet, both PSEG and P3/EP SA: (1) dismiss PJM’s determination of how much time will be needed before implementation, urging the Commission to replace PJM’s judgment with theirs; and (2) ignore the Commission’s harmonization directive, while focusing only on minimizing any auction delays. Both PSEG and P3/EP SA ignore, or largely ignore, the Commission’s ruling that “the reserve market changes implemented herein have rendered PJM’s methodology for calculating the E&AS Offset used in its capacity market unjust and unreasonable.”²⁰ Both PSEG and P3/EP SA focus on the Commission’s finding that “PJM’s existing reserve market design is unjust and unreasonable.”²¹ The Commission directed PJM to propose an effective date for the approved energy and operating reserve market revisions that harmonizes these two Commission findings: (1) that PJM’s existing reserve market design is unjust and unreasonable; and (2) that implementation of the approved energy and operating reserve market revisions will immediately upon their effectiveness render the historical E&AS offset mechanism (used in the positioning of the capacity auction variable resource requirement curve) unjust and unreasonable.

PSEG and P3/EP SA’s positions should not come as a surprise though, given that they or their members stand to profit from such unjust and unreasonable double recovery should the forward-looking E&AS offset be implemented prior to June 1, 2022. For instance, P3 notes that its members own a combined “67,000 megawatts of generation assets . . . in the PJM region,”

¹⁸ PSEG, at 3; P3/EP SA, at 4 (both quoting or citing the May 21 Order, at P 2).

¹⁹ *Id.*

²⁰ May 21 Order, at P 308, (emphasis added).

²¹ *Id.*, at P 22.

and EPSA notes it “is the national trade association representing competitive power suppliers in the U.S.”²²

Although OPSI would have preferred that PJM select June 1, 2022 as the effective date for the new energy and operating reserve market changes in order to minimize customers unnecessarily paying more, PJM’s selection of May 1, 2022 reasonably achieves the desired harmonization.²³ Selection of that date accounts both for the time PJM will need to properly implement the Commission-approved energy and operating reserve market revisions, as well as the importance of minimizing the period of time for which double recovery of shortage revenue will occur.

June 1, 2022 is the earliest date that the impacts of a forward-looking E&AS offset can be reflected in customers’ capacity charges and the associated revenues paid to resources that will take on a capacity obligation in the base residual auction for the delivery year that starts on that date. To be clear, there is no earlier date that a forward-looking E&AS offset can be reflected in capacity charges/revenues without re-running an already-held base residual auction (a solution which the Commission has rejected).²⁴ Assuming PJM implements a forward-looking E&AS offset mechanism in the auction parameters for the delivery year beginning June 1, 2022, implementing the energy and operating reserve market revisions any time prior to that date will result in the excess recovery or effective double recovery of shortage revenue. While PSEG and P3/EPISA ignore this reality, PJM must factor this double recovery consideration into its harmonization balance. Citing practical operational concerns about initial implementation in a

²² P3/EPISA, at 1.

²³ OPSI believes that in the context of the Commission’s May 21 Order and the interrelationship between capacity auction pricing and the E&AS offset, harmonize means coordination, or simultaneous implementation.

²⁴ May 21 Order, at P 322.

peak period like June 1, 2022,²⁵ PJM's proposed May 1, 2022 effective date limits the double recovery period to one month.

If the Commission entertains PSEG and P3/EP SA's desires for an effective date earlier than May 1, 2022, then the Commission would also, to avoid unjust and unreasonable double recovery, need to adjust the capacity revenue already committed for the 2021/2022 delivery year, and possibly, depending on the effective date chosen, the 2020/2021 delivery year. Since devising such an adjustment solution could be complex and controversial, and, in any event, is unnecessary if the Commission approves PJM's proposed May 1, 2022 effective date, approving the May 1, 2022 effective date would be the better course of action.

IV. CONCLUSION

Wherefore, OPSI recommends that the Commission reject PSEG and P3/EP SA's requests regarding the effective date for the Commission-approved energy and operating reserve market revisions and approve PJM's proposed May 1, 2022 effective date.²⁶

Respectfully Submitted,

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Dated: August 10, 2020

²⁵ PJM Compliance Filing, at 14-15.

²⁶ These comments were approved unanimously by the OPSI Board of Directors on August 10, 2020.

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/s Gregory V. Carmean

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Dated at Newark, Delaware this August 10, 2020.