

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

PJM Interconnection, L.L.C.

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Docket Nos. ER16-372-000

COMMENTS OF THE ELECTRIC POWER SUPPLY ASSOCIATION

Pursuant to Rule 212 of the Federal Energy Regulatory Commission’s (“FERC” or the “Commission”) Rules of Practice and Procedure, 18 C.F.R. § 385.212 (2014), the Electric Power Supply Association (“EPSA”)¹ respectfully submits comments in support of the November 20, 2015 compliance filing by PJM Interconnection, L.L.C. (“PJM” or the “RTO”) to modify various provisions of the PJM Open Access Transmission Tariff (“Tariff”) and the Amended and Restated Operating Agreement of PJM Interconnection, L.L.C. (“Operating Agreement”) to implement its Hourly Offers proposal.² Specifically, PJM proposes to allow Market Sellers to submit day-ahead offers that vary by hour and to allow Market Sellers to update their offers in real time on an hourly basis under certain important circumstances. PJM also proposes several changes that align its current rules with its Hourly Offers proposal, and ensure Market Sellers are compensated in a just and reasonable manner under the proposal.

¹ EPSA is the leading national trade association representing competitive power suppliers, including generators and marketers. Competitive suppliers, which collectively account for 40 percent of the installed generating capacity in the United States, provide reliable and competitively priced electricity from environmentally responsible facilities. EPSA seeks to bring the benefits of competition to all power customers. This pleading represents the position of EPSA as an organization, but not necessarily the views of any particular member with respect to any issue. EPSA filed a doc-less Motion to Intervene in this proceeding on December 1, 2015.

² *PJM Interconnection, L.L.C., Compliance Filing to Implement Hourly Offers*, Docket No. ER16-372-000 (filed November 20, 2015) (“PJM Hourly Offers Filing”).

EPSA highlights below the critical role that implementation of the hourly day-ahead and real-time energy reoffer capabilities will have in the improvement of PJM's market design, energy price formation, and interaction with the natural gas markets, as well as improving the ability of generators to switch fuels during the delivery day to meet system demand. EPSA therefore urges the Commission to issue an order approving the PJM Hourly Offers Filing as submitted by February 3, 2016 as requested by PJM, and to direct PJM to implement the proposal by November 1, 2016.

I. BACKGROUND

This timely proceeding stems from the Commission's June 9, 2015 Order rejecting the complaint of Duke Energy Corporation ("Duke"), and its alternative request for waiver, related to recovery of certain gas costs incurred during January 2014.³ While the Commission denied Duke's complaint, it held that "based on the circumstances that gave rise to this proceeding . . . PJM's OATT and Operating Agreement may be unjust and unreasonable because the OATT and Operating Agreement do not appear to allow market participants to submit day-ahead offers that vary by hour and do not appear to allow market participants to update their offers in real time, including during emergency situations." The Commission accordingly initiated a new proceeding under section 206 of the Federal Power Act ("FPA"), and required PJM to file a report "either to (1) report whether it will propose tariff changes that (a) allow market participants to submit day-ahead offers that vary by hour and to update their offers in real time, including during emergency situations, and (b) make any associated

³ *Duke Energy Corporation, et al. v. PJM Interconnection, L.L.C., et al., and PJM Interconnection, L.L.C.*, Order on Complaint Instituting Section 206 Proceeding, And Establishing Refund Effective Date at PP 69-74, Docket Nos. EL14-45-000 and EL15-73-000, (issued June 9, 2015).

modifications to its market power mitigation rules; such report must include a proposed timeline from PJM explaining how it will implement such changes by November 1, 2015, or as soon as practicable thereafter; or (2) explain why such changes are not necessary.”⁴

On July 10, 2015, PJM submitted its report and stated its agreement with the Commission that its Tariff and Operating Agreement should be revised to allow hourly offers as already occurs in various ways in other organized markets, and that it would work with stakeholders to develop rule changes and necessary revisions, including changes to associated market power mitigation rules and other market rules required to implement hourly offers.⁵ PJM also outlined in this report technical issues to enable hourly offers that would push the implementation timeline to the November 1, 2016 timeframe.⁶

II. COMMENTS IN SUPPORT

A. The Commission Should Approve the PJM Hourly Offers Filing And Direct Implementation by November 1, 2016

As PJM states in the compliance filing, the Hourly Offers proposal is intended to address the Commission’s directives in Docket No. EL15-73-000 to allow generators to reflect cost changes within the Operating Day while also ensuring that appropriate changes to PJM’s market power mitigation rules are made.⁷ EPSA agrees the compliance filing meets the Commission’s directives, and emphasizes the critical role that implementation of the hourly day-ahead and real-time energy reoffer capabilities

⁴ *Id.* at P 73.

⁵ *PJM Interconnection, L.L.C.*, Report of PJM Interconnection, L.L.C. at 1-2, Docket No. EL15-73-000, (filed July 10, 2015).

⁶ *Id.* at 3-4.

⁷ PJM Hourly Offers Filing at 2.

will have in the improvement of PJM's market design, energy price formation, and interaction with the natural gas markets, as well as improving the ability of generators to switch fuels during the delivery day to meet system demand. EPSA therefore urges the Commission to issue an order approving the PJM Hourly Offers Filing as submitted by February 3, 2016, as requested by PJM, and to direct PJM to implement the proposal by November 1, 2016. While this implementation date is appropriate given the scope of the required software and system changes, this market improvement is necessary and should be in place for the Winter 2016/2017 without further delay as the current rules prohibiting hourly offers are unjust and unreasonable.

As summarized by PJM, the Hourly Offers proposal

[A]llows flexibility to Market Sellers when they submit offers into the Day-Ahead Energy Market and during uncommitted hours after the close of the Day-Ahead Energy Market, but once a resource is scheduled by the PJM Office of Interconnection, requires that any updates that increase the offered price of a resource relative to its market-based offer in effect at the time of commitment must be the result of incurred verifiable increases in costs. This is similar to what is already in effect in other RTOs which allow some form of hourly offers, but also have rules in place to ensure that market power is not exercised when hourly offers are made.⁸

It should be emphasized that PJM worked closely with stakeholders, and in particular, the PJM Independent Market Monitor ("IMM"), to develop the Hourly Offers proposal. In fact, the submittal of the compliance filing was delayed and the Hourly Offers proposal was revised to address some of the concerns raised by the IMM and other stakeholders.⁹ Broadly, the proposal includes measures to eliminate foreseeable

⁸ PJM Hourly Offers Filing at 13.

⁹ See Updated Hourly Offers Proposal Overview Presentation, pg. 2 and generally, Generator Offer Flexibility Senior Task Force Meeting, November 12, 2015, available at <http://www.pjm.com/~media/committees-groups/task-forces/gofstf/20151112/20151112-item-02d-proposal-overview.ashx>; Also see, Supplemental Report of PJM Interconnection, L.L.C., Docket No.

opportunities for market abuse, minimize schedule switching throughout the day, and in particular, the three pivotal supplier (“TPS”) market power mitigation test will be applied to online units on an hourly basis. These measures provide appropriate safeguards regarding market power concerns while providing Market Sellers the flexibility to respond to changing circumstances and better reflect their actual costs in offers.

It should be highlighted that the Hourly Offers proposal will provide the benefits of increased transparency and granularity to the overall market, in addition to allowing Market Sellers to refine their individual offers in response to weather or other events in the market to better ensure reliability. Further, the Hourly Offers proposal will improve PJM market efficiency and dispatch, as the current mechanism is cumbersome as highlighted during the polar vortex of January 2014 and subsequent gas cost recovery waiver requests from various PJM Market Participants. EPSA also notes support for the “opt out” provision that allows participants that prefer to opt out of submitting hourly offers the option to do so on a unit by unit basis under certain circumstances; this provision does allow such entities the flexibility to submit hourly offers in the Day-ahead market.

EL15-73-000, (filed October 29, 2015) (“Given the amount of stakeholder feedback PJM received related to its proposed revisions and the complexity of the issues involved, PJM will not be able to submit its filings by October 30. Moreover, PJM feels it is important to review the proposed revisions a final time with its stakeholder before submitting its filing to the Commission.”), *available at* <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=14032289>.

B. Commission Approval And Implementation Of The PJM Hourly Offers Filing Is An Important Part Of The Broader Effort To Improve ISO/RTO Price Formation

Over the past several years, EPSA has consistently urged the Commission through comments, priority principles and recommendations, and expert reports to ensure that intraday offer flexibility is addressed as one of the key elements in the overall solution to improve price formation across the ISOs/RTOs.¹⁰ EPSA has highlighted that such a mechanism, which provides the ability to refresh energy offers on an intraday basis, optimally hourly, is critical so that sellers can adjust real-time offers to account for fuel price volatility between the Day Ahead and Real Time markets. This ensures that generators are able to reflect actual fuel prices in their offers, which is of particular importance when natural gas prices are volatile. Also, it is critical that a gas generator has the ability to reflect the gas prices of two different gas days into its offers for a single electric day by shaping the hourly offers when the gas price from one gas day to another varies significantly. Without this hourly offer flexibility, generators are forced to take on significant risk by using a price that may be accurate for the hours

¹⁰ See, e.g., Comments of the Electric Power Supply Association, *Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Docket No. RM15-24-000, (filed November 30, 2015); Post-Technical Workshop Comments Of The Electric Power Supply Association, *Price Formation in Energy and Ancillary Services Markets Operated by Regional Transmission Organizations and Independent System Operators*, Docket No. AD14-14-000, (filed March 6, 2015); Post-Conference Comments of the Electric Power Supply Association, *Winter 2013-2014 Operations and Market Performance in Regional Transmission Organizations and Independent System Operators*, Docket No. AD14-8-000, (filed May 14, 2014); Susan L. Pope, "Price Formation in ISOs and RTOs: Principles and Improvements," Electric Power Supply Association paper ("Pope Price Formation Paper"), Filed in Docket No. ER14-14-000, October 29, 2014, available at http://www.epsa.org/forms/uploadFiles/2CC210000016F.filename.EPSA_Price_Formation_Oct_29_2014_FINAL.pdf; "The Polar Vortex: Implications for Improving the Efficiency of Wholesale Electricity Spot Market Pricing," by A. Joseph Cavicchi, Executive Vice President, Compass Lexecon, issued March 31, 2014, available at http://www.epsa.org/forms/uploadFiles/29D4100000011.filename.Compass_Lexecon_Polar_Vortex_Implications_paper_3_31_2014.pdf. ("Cavicchi Paper")

in gas day 1 but too high or low for the hours in gas day 2. This ability is central to adequate price formation and therefore is a market mechanism that should be implemented in every market, but is currently lacking in PJM. Approval of the instant compliance filing brings PJM in line with what is clearly a best practice for energy price formation.

EPSA therefore commends the Commission's action in directing PJM to implement Hourly Offers in the instant proceeding. ISO-NE, NYISO, MISO, CAISO, as well as ERCOT, have all developed market systems and related business rules that allow generating resources to make Hourly Offers in some form.¹¹ PJM's proposal is designed to both account for characteristics that are specific to PJM's markets and align with several of these RTOs which already allow Hourly Offers. PJM states in its compliance filing, "While the particular mechanisms and rules proposed to be employed by PJM may differ from what is used today in other RTOs due to the key differences in each market's respective design, PJM's proposed revisions result in the same just and reasonable outcome." EPSA agrees with this approach. Further, EPSA has urged the Commission to move forward expeditiously with energy price formation reforms in generally applicable proceedings such as NOPRs, or in market-specific proceedings, such as the instant PJM Hourly Offers proposal. Doing so will ensure the benefits and efficiencies of these market design improvements will be derived across the regions and protect against seams or inter-market distortions as a series of critical reforms to energy and ancillary services market prices are implemented in the coming months.

¹¹ PJM Issue Tracking, Generator Offer Flexibility, Issue Details, *available at* <http://www.pjm.com/committees-and-groups/issue-tracking/issue-tracking-details.aspx?Issue={ECAC2705-A42B-4495-82DD-B7DD7BBE4050}>.

III. CONCLUSION

WHEREFORE, EPSA reiterates support for the PJM Hourly Offers proposal and asks the Commission to consider these comments in issuing its order on the compliance filing. EPSA respectfully requests that the Commission grant the requested approval to PJM by February 3, 2016, as discussed herein, to facilitate implementation of the proposed changes by November 1, 2016.

Respectfully submitted,



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Dated: December 11, 2015

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the comments via email upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., December 11, 2015.



Nancy Bagot, Sr. Vice President