

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

<b>TECHNICAL CONFERENCE ON</b>	)	<b>Docket No. AD13-7-000</b>
<b>CENTRALIZED CAPACITY MARKETS</b>	)	
<b>IN REGIONAL TRANSMISSION</b>	)	
<b>ORGANIZATIONS AND</b>	)	
<b>INDEPENDENT SYSTEM OPERATORS</b>	)	

**POST-TECHNICAL CONFERENCE COMMENTS  
OF THE PJM POWER PROVIDERS GROUP**

“If you have built castles in the air, your work need not be lost;  
that is where they should be. Now put the foundations under them.”

— *Henry David Thoreau, Walden*

By their nature, capacity markets are a challenging proposition – testing the ability of markets to determine the price of reliability in a regulatory construct that is competitive, yet fair. Despite the fact that less than 15% of the price of wholesale electricity is attributable to capacity in PJM Interconnection, L.L. C. (“PJM”), in many respects, the capacity market is the glue that holds the wholesale market structure together – allowing competition to flourish with confidence that reliability will be maintained.

The PJM Power Providers Group (“P3”) respectfully submits these comments in response to the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) October 25, 2013, Notice establishing a date for submittal of post-conference comments (“Supplemental Notice”)<sup>1</sup> in response to the September 25, 2013, technical conference in the above-captioned proceeding

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<sup>1</sup> *Notice Allowing Post-Technical Conference Comments, Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators, Docket No. AD13-7-000, (issued October 25, 2013).*

(“Technical Conference”). As the Commission often heard during the Technical Conference, capacity markets, particularly in PJM, have successfully maintained reserve margin requirements. Reliability is being maintained, diverse resources are coming to market and prices are competitive. Although the basic fundamentals of PJM’s Reliability Pricing Model (“RPM”) capacity market (forward commitment, sloping demand curve and locational pricing) are sound, with reliability and billions of dollars at stake, the details matter. The Commission should focus on getting those details correct while moving confidently in the direction of a stable, enduring capacity construct. Fortunately, PJM’s market rules are already well down that path.

With these general thoughts in mind, P3<sup>2</sup> offers the following specific responses to the questions posed in the Supplemental Notice.

#### **I. Role of Capacity Markets**

As an organization, P3 has consistently supported efforts to improve and enhance PJM’s capacity market. The promise of the capacity market, allowing consumers to access the lowest priced capacity consistent with maintaining reliability, is a meaningful one that demands constant vigilance and evaluation. Properly structured capacity markets offer enormous value to consumers, and the Commission and PJM should be commended for their commitment to improving them.

In most respects, PJM’s capacity construct is meeting its promise. As the Brattle Group

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<sup>2</sup> P3 is a non-profit organization dedicated to advancing federal, state and regional policies that promote properly designed and well-functioning electricity markets in the PJM Interconnection, L.L.C. (“PJM”) region. Combined, P3 members own over 87,000 MW of generation assets and over 51,000 miles of electric transmission lines in the PJM region, serve nearly 12.2 million customers, and employ over 55,000 people in the PJM region, representing 13 states and the District of Columbia. The comments contained in this filing represent the position of P3 as an organization, but not necessarily the views of any particular member with respect to any issue. For more information on P3, visit [www.p3powergroup.com](http://www.p3powergroup.com).

observed in their 2011 assessment, “RPM is performing well. . . . [and] has been successful in attracting and retaining cost-effective capacity sufficient to meet resource adequacy requirements” in PJM.<sup>3</sup> PJM underscored this point in their written comments for the Technical Conference, stating “... the forward capacity market has reduced overall costs of satisfying reliability requirements by fostering competition and has enabled cost effective responses to the challenges presented by increasingly stringent environmental rules. RPM has facilitated economically efficient tradeoffs among investment in environmental retrofits, retirement and replacement with lower cost alternative supplies.”<sup>4</sup>

The results of the PJM capacity markets speak for themselves: (1) over 28,000 megawatts (“MW”) of new generation have cleared PJM’s capacity construct; (2) over 14,000 MW of demand response have cleared in base residual auctions; and (3) over 22,000 MW of capacity have retired since RPM’s inception.<sup>5</sup> Reserve margins have been robust as a result of the capacity market and prices have generally been below the cost of new entry. This is all good news for consumers, allowing them to enjoy the reliability benefits of competitively priced capacity.

A major reason for the progress since the implementation of RPM has been PJM’s commitment to the three core elements of the construct that are critical to its success and essential to maintain, including the: (1) forward commitment; (2) sloping demand curve; and (3) locational price signals. While P3’s thoughts on each of these elements are provided in greater detail in Section III, below, it is important to note that these three elements are the foundation of RPM.

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<sup>3</sup> The Brattle Group, Second Performance Assessment of PJM’s Reliability Pricing Model (August 26, 2011) at page i (“Brattle RPM Performance Assessment”).

<sup>4</sup> Statement of Andrew Ott – Executive Vice President – Markets, PJM Interconnection, LLC, Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators, LLC, AD13-7-000, September 9, 2013, p.4.

<sup>5</sup> Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators, AD13-7-000 September 25, 2013 (Transcript) (“Tech. Conf.”), pp. 36-37.

While PJM has offered, and P3 has supported, regular improvements to PJM's capacity market rules since RPM's inception, these essential aspects have appropriately endured. Although PJM's market has effectively procured the necessary capacity to meet reliability reserve requirements to date, the resource dynamics are changing (caused by increased demand response, environmental regulations that result in resource retirements, lower gas prices and subsidization that impacts pricing outcomes) and it is not clear that, absent significant changes to refine the market, it will continue to maintain reserve margin requirements at just and reasonable rates. Moving forward, the Commission should be open to additional improvements to RPM, provided these core elements are maintained.

While RPM is fundamentally about physical reliability, the greatest challenge for PJM, PJM stakeholders, and ultimately the Commission, is determining the appropriate price for capacity. Not surprisingly, this aspect of the PJM capacity construct engenders the greatest debate and controversy and the details beyond the core elements are critical. The PJM Independent Market Monitor ("IMM"), Dr. Joseph Bowring, placed the challenge in very succinct terms, "[W]hat we need to insure, and it seems simple but it's actually hard to do when you work through the details -- we need to insure that market fundamentals are revealed in the prices without distortion."<sup>6</sup> Most of the recent RPM reforms are squarely directed at this challenge. Additional changes aimed at this goal are pending before the Commission, and the Commission must be prepared to evaluate them understanding the value of the core elements and the necessity to maintain reliability in light of the changing resource dynamics.

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<sup>6</sup> Tech. Conf., p. 54.

Specifically, it is becoming increasingly important that the capacity market be viewed as a physical market and not a financial one.<sup>7</sup> The unequivocal goal of RPM is reliability and reliability demands physical deliverability. Resources that participate in the capacity markets must be tangible and verifiable. As the IMM testified, “[A] key attribute of supply is that it's physical. In PJM, that requirement has to be enforced, and I think there are some areas where that needs to be improved.”<sup>8</sup> P3 supports and will continue to support the notion that capacity in PJM is a physical resource consistent with the IMM's comments.

Finally, as was mentioned several times during the Technical Conference, the energy markets and capacity markets work hand in hand and it is important that both markets are structured in a manner that allows for mutual support. As was observed, the majority of the revenue received by supply resources is derived from the energy markets. Energy markets must allow for proper price formation so that appropriate market signals are sent to both supply and demand side resources. Additionally, as the PJM IMM, testified, “[C]apacity markets don't exist by themselves. In fact, the only reason for the capacity market is to make the energy market function better. Ultimately, the goal of all of this is to provide reliable energy at the lowest possible cost -- not lower, but at the lowest possible cost. And that is the reason for a capacity market, not because we like capacity, not because capacity has some particular features, but because it allows the energy market to work.”<sup>9</sup> The definition of a capacity resource is based on MWs, and energy markets

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<sup>7</sup> Reply Comments of PJM Interconnection, L.L.C., on Technical Conference, Docket No. ER13-2108-000, December 11, 2013, at p. 3 (PJM acknowledges that “capacity” is “not a fungible commodity.”).

<sup>8</sup> Tech. Conf., p. 51.

<sup>9</sup> Tech. Conf., p. 48.

procure megawatt-hours (“MWh”).<sup>10</sup> The distinction between the products procured should be recognized in all the Commission’s actions. The operational characteristics, and the MWh provided, should be compensated through the energy markets.

## **II. State Policies and Self Supply**

As the Commission appropriately observed, the meshing of state policy objectives involving resource planning decisions and the reliability mandates of our regional wholesale power markets is occasionally presented as a challenging proposition. This thorny meshing of state initiatives and federal duties is compounded by the fact that some states have elected to restructure their retail electricity market and are thereby wholly dependent on a robust wholesale market for both price and reliability.

Several parties proposed changes to PJM’s capacity construct under the mistaken premise that the current rules do not allow for the “pursuing of legitimate state priorities.” However, upon careful examination, the current capacity rules allow states a broad range of abilities that if legally exercised would allow for the pursuit of “legitimate state priorities.” The pursuit of these priorities may come at a greater cost to consumers than otherwise, but the decision to pursue a state priority ultimately rests in the hands of state policy makers to determine whether such higher costs are in the best interest of their state.

Importantly, as the Commission has stated, “[W]hile the Commission acknowledges the rights of states to pursue legitimate policy interests ... it is our duty under the FPA to assure just and reasonable rates in wholesale market.”<sup>11</sup> P3 agrees and applauds the Commission for

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<sup>10</sup> PJM Reliability Assurance Agreement Among Load Serving Entities in the PJM Region (“RAA”), Rate Schedule FERC No. 44, Article 1 § 1.8.

<sup>11</sup> *PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,022, April 12, 2011, p. 45.

drawing this line. While FERC has appropriately drawn a line beyond which state and self-supply entities cannot cross, there are numerous options available to states and self-supply entities that allow for the pursuit of state or business policies without crossing that line and adversely impacting the justness and reasonableness of wholesale rates. Consider:

**1. States can require their utilities to sign long-term contracts of any duration.**

Every state in the PJM footprint to various degrees has regulatory jurisdiction over their Load Serving Entities (LSEs) which extends to the procurement of energy and capacity by their LSEs. While some state public utility commissions may limit jurisdiction over the procurement of generation in their jurisdiction, nothing in the PJM tariff or FERC regulations prevents a state from having their LSEs sign contracts of any duration. There are certain aspects of these contracts that would comply with federal law, but the ability to enter into such a contract is not proscribed by PJM or FERC. States generally have not done so because the costs associated with these contracts are usually well above market rates so most regulators in PJM have (wisely) chosen to price energy and capacity at market prices rather than regulatory prescription.

**2. States can order their utilities to acquire generation above the reserve margin.**

During the Technical Conference and in comments submitted prior thereto, several states and self-supply entities cloaked themselves in the notion that they are undertaking market-damaging initiatives in the name of generation adequacy in their state/service territory. While P3 applauds the concern for reliability and agrees that reliability is of paramount importance, nothing in PJM or FERC rules prevents a state from exceeding the reserve margins set by PJM – provided it is done in a manner that does not undercut the market. If any state in PJM wants to have its utilities procure a 25% reserve margin for every year between now and 2030, that state

could do so. For many reasons, P3 believes that such an action would be misguided, but the prerogative to do so, nonetheless, rests with that state.

### **3. States can order their LSEs to procure generation from renewable resources.**

Mr. Robert Erwin, from the Maryland Public Service Commission, detailed Maryland's aggressive renewable energy and state energy efficiency goals. Again, all these goals and objectives can be met within the current PJM framework. In fact, PJM has undertaken numerous initiatives to help states achieve their goals in this regard. Significantly, in 2005, PJM created the Generation Attributes Tracking System that allows states to track renewable energy that is being dispatched to the grid.<sup>12</sup> This certificates-based tracking system allows states on a monthly basis to track emissions data, fuel source, location and state RPS qualification information for each MWh of electricity produced. With this information, states can pursue their renewable energy goals, provided it is done consistently with state and federal regulations.

### **4. States can encourage their utilities to become FRR entities.**

During the Technical Conference, and in comments preceding the Technical Conference, the Commission heard many opinions on the Fixed Resource Requirement ("FRR") that allows LSEs, in essence, to opt out of RPM provided the LSE can meet certain eligibility criteria. FRR is a viable market construct in PJM and several entities have elected to avail themselves of it. However, the FRR was a product of settlement and although P3 supports a provision that prevents a resource from moving in and out of the RPM auction year after year, we caution any changes to the construct or any efforts to implement the construct elsewhere.

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<sup>12</sup> <http://www.pjm.com/~media/about-pjm/newsroom/renewables/greener-grid.ashx>



Therefore, while states can presumably move their utilities into a FRR arrangement and certainly, self-supply entities can elect a FRR status, experience suggests that a FRR can be a costly alternative to market-based capacity. Given the market dynamics that have been experienced to date, tariff changes that encourage more entities to enter the FRR do not seem prudent at this time. In fact, P3 believes that the more market participants in RPM, the better, as larger markets create greater efficiencies and opportunities that ultimately benefit consumers. Moreover, market participants see the continuing value of operating in long-term capacity markets, as evidenced in AEP's recent decision to phase out of its FRR status by 2015 in order to fully participate in PJM's RPM. In 2012, the Public Utilities Commission of Ohio ("PUCO") recognized this precise market value when approving the transition of AEP from FRR to market-based capacity.<sup>13</sup>

In many, if not most, of the scenarios presented in this proceeding, it is not a question of whether a state or a self-supply entity has the legal authority to do something it wants to do, because it usually does. Rather, it is a question of whether that entity is willing to pay the actual costs associated with that decision. The economic subsidization of one unit may support that entry, but if allowed to impact the wholesale price, it will harm the market outcomes and has the potential to harm reliability.

FERC's role in policing this activity cannot be understated. In 2012, PJM was a \$30 billion market. In a market that large, the temptation to influence the market to one's benefit will be ever present. The Commission should continue to support competitive markets and ensure that state prerogatives are not allowed to be implemented at the cost of competition and reliability.

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<sup>13</sup> Public Utilities Commission of Ohio (PUCO), AEP Ohio's Modified ESP 2 case (Case No. 11-346-EL-SSO).

In this light, the Minimum Offer Price Rule (“MOPR”) is a critically important component of any well designed wholesale market. P3 has consistently supported the need for a minimum offer price rule and will continue to press for enhancements that protect the market from the damage caused by price suppression. As PUCO Chairman Snitchler succinctly stated, “...it is inherently contradictory to allow state-subsidized generation to bid into a competitive market.”<sup>14</sup> Any proposed exemptions to MOPR rules should be scrutinized extremely carefully for both intended and unintended consequences.

It is worth noting that under the Federal Power Act and two recent federal court decisions, states are not allowed to set the price of capacity.<sup>15</sup> In both cases, two separate federal courts in separate judicial circuits ruled that the power to determine the means by which the price of capacity is established in PJM rests exclusively with FERC under powers granted to it by federal law. While these decisions are still subject to appeal, they nonetheless appropriately remove a significant and damaging means of price suppression from the market.<sup>16</sup> Nonetheless, it does not completely remove the threat of buyer market power and, as such, the importance of a meaningful and effective MOPR remains.

Overall, P3 believes PJM and the Commission have done an admirable job incorporating the prerogatives of states and the unique attributes of self-supply into the PJM market construct. That said, the Commission and PJM need to remain ever vigilant to ensure that this balance is

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<sup>14</sup> Comments of Todd A. Snitchler, Chairman, Public Utilities Commission of Ohio, “Mechanics of Current Centralized Capacity Markets,” Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators, LLC, AD13-7-000, September 9, 2013, p. 8.

<sup>15</sup> *PPL Energy Plus, LLC, et al v. Hanna* (Dist. N.J. 2013); *PPL Energy Plus, LLC, et al. v. Nazarian* (Dist. M.D. 2013).

<sup>16</sup> The so-called “Contract for Differences,” whereby a state guarantees a capacity payment above and beyond the clearing price of capacity, was the approach that was determined to be unconstitutional in both New Jersey and Maryland.

being maintained. Given that PJM, consisting of fourteen political jurisdictions, has several large entities availing themselves with a self-supply option, the possibility of market-damaging activity will be ever present. The commitment of FERC and PJM to the sustaining health of the market in the face of this persistent threat will be critical to the enduring success of the market.

### **III. Design Elements**

P3 agrees with PJM Senior Vice President of Markets Andy Ott's statement during the Technical Conference that the "fundamental goal of capacity markets is resource adequacy and reliability, and to insure, on a long-term, sustainable basis that we have the resources necessary – coordinated, of course, with reliable transmission planning – to insure long-term reliability."<sup>17</sup> A capacity market achieves this resource adequacy and reliability goal through a properly designed and implemented market. The following are the important design elements to consider regarding the capacity market.

#### **1. Sloped Demand Curve**

System reliability should not be viewed as a knife's edge issue and it would be a mistake to construct a capacity market on that assumption. As reserve margins inch up or down, reliability is better viewed as a matter of degrees. The sloped demand curve is the economic tool the PJM and New York capacity markets use to recognize this fact and avoids pricing capacity based on a simple "we have it or don't have it" or "boom-bust" analysis, but rather bases it on a graduated approach intended to develop and preserve adequate resources over time.

As this Commission knows, PJM utilizes an administratively determined demand curve (VRR Curve) that is downward sloping to establish the clearing price in its RPM auctions, in

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<sup>17</sup> Tech. Conf. p. 35.

combination with a supply curve formed from capacity supplier sell offers. The VRR Curve connects price-quantity points that are stated as multiples or fractions of the Net CONE (on the price axis) and the target reliability requirement (on the quantity axis) to establish the amount of unforced capacity that PJM will be required to seek to procure in its RPM auctions.<sup>18</sup>

The VRR Curve is used to establish the level of capacity resources that will provide an acceptable level of reliability.<sup>19</sup> As the Commission has found, PJM’s VRR Curve “...strikes a reasonable balance between maintaining an incentive for resources to commit to providing capacity while not unduly burdening consumers with higher costs.”<sup>20</sup>

P3 supports the sloped demand curve and believes it to be a core component of the PJM capacity construct. As opposed to the vertical demand curve, the sloped demand curve rightly recognizes the relative amount of capacity on the system and prices it accordingly. The sloped demand curve avoids a boom-bust cycle that would not preserve reliability and would dramatically increase risk to, and thus cost of, new resources.

## **2. Net CONE**

Although panelists at the Technical Conference did not extensively address Net Cost of New Entry (“CONE”), the Commission has asked whether there are improvements to the derivation of Net CONE that would improve the functioning of capacity markets and how differences in the derivation of Net CONE across the RTOs/ISOs impact the markets. The calculation of the Gross and Net CONE are the linchpins by which demand curves are determined so both values play a fundamental role in getting the “right price” for capacity.

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<sup>18</sup> Order Accepting, Rejecting and Suspending Tariff Provisions and Establishing Hearing and Settlement Judge Procedures, Docket No. ER12-513-000, p. 24.

<sup>19</sup> PJM Open Access Transmission Tariff (“OATT”), Attachment DD at section 5.10(a).

<sup>20</sup> ER-12-513, *supra*, at p. 27.

Given that decisions to invest are made with a 20-30 year recovery period in mind, P3 believes that consistency in the manner the CONE is calculated is paramount. Regular changes in the reference unit and other critical inputs only serve to increase risk which in turn raises costs to consumers. Net CONE should be based on realistic assumptions of a new entry unit and should be reflective of market conditions as much as possible.

### **3. Length of Forward Period**

P3 agrees with PJM that RPM, with its forward capacity design, has been a valuable tool to ensure adequate resources are committed and reliability obligations are met on a forward basis. P3 agrees that the length of years is not as important as long as it is a “significantly forward” commitment.<sup>21</sup> As Andy Ott has stated,

“Again, this forward market has given us essentially confidence that, three years from now, we’re going to have adequate resources. They’re all lock in. They’re contracted. Other regions are facing forward uncertainty, and some other regions are actually resorting to surveys of their members to determine if they have enough resources in the future because they’re dealing with such uncertainty. That is not a sustainable construct.”<sup>22</sup>

P3 agrees with PJM that a forward capacity market does not “over procure,” and in fact manages the uncertainty of supply and demand in the market in “the most cost-effective manner.”<sup>23</sup> P3 also appreciates Dr. Bowring’s comments supporting PJM’s forward capacity market, by stating:

“I agree with what’s been said about forward-looking markets. It permits competition. It permits new entry. It permits dealing with uncertainty. In fact, in PJM, it’s demonstrated to successfully address adjustments to environmental regulations, or very substantial adjustments to environmental regulations, and also permits competition to replace retiring resources.”<sup>24</sup>

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<sup>21</sup> Tech. Conf. p. 42.

<sup>22</sup> Tech. Conf. p. 37

<sup>23</sup> Tech. Conf. p. 42.

<sup>24</sup> Tech. Conf. p. 48-49.

Finally, the three year forward capacity commitment has proven to be a valuable tool for PJM's transmission planning efforts. Knowing which capacity resources will be in the market while understanding which resources will be exiting the market provide an invaluable insight that transmission planners can then use to model the RTO's transmission needs. This is a significant benefit that other RTOs with shorter forward markets do not enjoy.

#### **4. Length of Commitment Period**

P3 members have generally found the one year commitment period to be a workable commitment length in PJM. From time to time, proposals are offered to increase the length of the commitment period; however, PJM stakeholders usually settle on one year as being a workable and appropriate commitment period. At this time, P3 is not advocating changes to the commitment period and suggests that other reforms should take priority.

#### **5. Zones**

Capacity deliverability is an essential element of any capacity construct. In order for capacity to have value it must be able to reach load when it is needed. Capacity markets must recognize transmission limitations and price capacity accordingly in order to send the appropriate price signals to generation, transmission and demand response.

The defining of local delivery areas in PJM has proven to be a somewhat challenging proposition, although as Dr. Roy Shanker notes, the PJM process is probably the most sophisticated of all the northeast markets.<sup>25</sup> Having zones bind in one year only but not in subsequent years has created some price volatility that ideally should not be so dramatic. That

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<sup>25</sup> Comments of Dr. Roy J. Shanker, Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators, AD13-7-000 (filed September 25, 2013) p. 7.

volatility should be mitigated to the extent possible, but not through assuming resources can serve load when that is not the case. Moreover, with limited insight as to the exact location of demand resources, PJM does not know exactly how much total capacity there will be in any given zone. This incomplete picture of PJM's system resources needs to end.

## **6. Retirement Notice**

P3 agrees with both PJM and its IMM that one of the main attributes of a forward capacity market, in general, and RPM, specifically, is that it ensures “rational retirement decisions.”<sup>26</sup> In other words, although retirements will always occur at some level, to the extent that they have been occurring in PJM, they have been occurring due to the economic displacement of resources. In this regard, Andy Ott stated that:

“So if we look through the history of what’s happened since the PJM forward capacity construct was put in, we’ve had 22,000 megawatts of generation retirements. The generators are either actually retired or they’re in the process of retiring. We’ve had about 17,000 megawatts where we had to step in, use a backstop procedure called a reliability must-run contract, for a short period of time to keep on a unit, to upgrade the transmission system to allow it to go. Those have been very fleeting. We’ve had to occasionally use them.”<sup>27</sup>

However, while P3 agrees with the stated value of PJM's forward capacity market construct in terms of ensuring appropriate retirement decisions, it continues to disagree with PJM's new requirements for such retirement notices, given the three-year capacity construct. As P3 has stated, P3 believes that although PJM's extensive new Deactivation Notice requirements, which the Commission recently approved, may be well intended, their actual effect will be that of an unjust, unreasonable and disparate treatment of generation owners located in PJM compared to other market participants. P3, therefore, continues to believe that PJM should have

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<sup>26</sup> Tech. Conf. p. 40.

<sup>27</sup> Tech. Conf. p 41.

maintained the deadline for existing resources to file for a Must-Offer Exception Deadline at 120 days prior to the auction.<sup>28</sup>

#### **IV. Conclusion**

P3 applauds the Commission for their continued commitment to getting capacity markets right. As evinced in PJM, the promise and progress of capacity markets is significant, although challenges may still exist. However, the undeniable fact is that following the implementation of RPM, PJM has consistently procured sufficient capacity, with robust reserve margins at a price below the cost of new entry. Sustaining this initial progress will be paramount as PJM faces market and regulatory conditions that force retirements and demand new investment. In such an environment, having a capacity price that reflects current market conditions is essential. PJM must continue to respond to its experience to refine the rules and ensure reliability through a competitive process which results in just and reasonable rates.

The Commission is currently (or will be shortly) evaluating a series of filings from PJM that seek to address the question of whether the current price of capacity is reflective of market conditions or is being inappropriately influenced (usually lowered) by factors such as demand response that is clearing capacity auctions but not able to deliver; demand response that is so inferior that it jeopardizes reliability; imported capacity that is not capable of being delivered under peak conditions; financial arbitrage between the base residual auction and the incremental auctions; or subsidized entry (either through out of market payments or other regulatory fiat). All of these filings, while important and must be addressed, must keep the core principles of RPM in place. These filings should be seen as opportunities to add to the story, not re-write it.

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<sup>28</sup> Motion to Intervene and Protest of the PJM Power Providers Group, Docket No. ER13-2140-000, dated August 30, 2013.



RPM's foundation is strong. The challenge for FERC, PJM and all PJM stakeholders is to strengthen it so it continues on the path to sustainability.

**WHEREFORE**, for the foregoing reasons, P3 respectfully requests that the Commission consider these comments to further its consideration of how current centralized capacity market rules and structures, particularly those in PJM, are supporting the procurement and retention of resources necessary to meet future reliability and operational needs.

Respectfully submitted,

On behalf of the PJM Power Providers Group

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Dated: January 8, 2014

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document on each person designated on the official service list compiled by the Secretary of the Federal Energy Regulatory Commission in this proceeding.

Dated at Washington DC, this 8th day of January, 2014.

On behalf of the PJM Power Providers Group

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