

Wednesday, September 24, 2014 4:43 PM ET  **Exclusive**

PJM stakeholders criticize capacity performance product plan; staff promises changes

By [Esther Whieldon](#)

Generators, utilities and other stakeholders on Sept. 24 voiced their concerns about [PJM Interconnection LLC's](#) proposal to create a new capacity market product designed to ensure generators perform as needed.

The majority of the discussions involved possible tweaks to the proposed compliance officer certification requirement, whether generators should be allowed a force majeure exclusion, the extent to which a must-offer requirement is needed to mitigate market power issues and whether PJM should ditch its plan for generator flexibility requirements.

At the start of the [enhanced liaison committee meeting](#) on the proposed capacity performance product, PJM staff reiterated how they are still tweaking the proposal based on recent stakeholder feedback. PJM Executive Vice President of Markets Andrew Ott also encouraged stakeholders to suggest alternative solutions rather than merely pointing out all the problems with the proposal.

PJM, the transmission grid and wholesale power market operator for much of the Mid-Atlantic region, experienced a wake-up call last winter when a number of cold snaps drove up energy consumption and power and gas prices while the region saw an unusual amount of unexpected generator outages and fuel supply challenges, particularly for natural gas-fired generation.

Noting that the region is becoming more dependent on gas-fired generation due to low gas prices and economic- and environmental regulation-driven coal plant retirements, PJM is [proposing](#) to add a capacity performance product to its three-year forward capacity market through which PJM signs up resources to be on call to meet forecast energy needs, plus a reserve margin.

The proposal is still in the early development stages, and staff at the Sept. 24 meeting said they will modify it based on recent stakeholder comments. However, some analysts have already started [forecasting](#) the possible market impacts of the initial proposal.

Under the envisioned new capacity market structure, PJM would have four products: the new capacity performance one plus an annual capacity product and extended summer and limited demand response products.

PJM's external market monitor, Monitoring Analytics, has [recommended](#) the RTO ditch the four-product plan, take demand response and energy efficiency out of the mix, and use only one capacity product. Regardless of whether demand response stays a component of the resource adequacy construct, the monitor also suggested PJM make all resources offer into the day-ahead market — an obligation to which only generation is currently held.

The head of Monitoring Analytics, Joseph Bowring, at the meeting reiterated his view that a must-offer obligation is needed to prevent resources from exercising market power under the proposed changes. His idea was supported by at least one stakeholder at the meeting.

To participate as a capacity performance product, PJM envisions that generators, demand response and energy efficiency providers that offer to provide this service must meet additional eligibility requirements that would ensure generators had sufficient plans in place and fuel assurances lined up and could operate for at least a certain number of hours. Generators would need to be able to provide 16 hours of continuous operation per day for three days.

Certification, force majeure provisions

A number of stakeholders at the meeting questioned PJM's idea of having an officer of the resource owner certify that a resource met certain eligibility requirements. The stakeholders were concerned that PJM was not offering enough details to make any officer comfortable with signing a certified statement of compliance. Some kind of checklist or safe harbor provisions are needed, some stakeholders suggested.

A utility sector stakeholder at the meeting recommended PJM allow generators to check their fuel arrangements with PJM first to ensure "that you're not going to have us at FERC's doorstep" for an enforcement action.

Some stakeholders were also uncomfortable with PJM's current plan to not include any force majeure exclusions to the requirements.

One stakeholder suggested that PJM ought to allow for broad events such as outages related to hurricanes, but not allow it for individual unit outage problems.

Bowring, for his part, suggested that "the market doesn't care why you're out. ... If you don't produce energy, you don't produce energy and that's all that should matter." PJM has already gone down the road of allowing for a long list of excuses for outages, which clearly did not work, he said.

Flexibility parameters

Another point of discussion was PJM staff's idea of establishing certain flexibility requirements for resources so PJM can direct units to increase or decrease their output as needed. The flexibility requirements are different for the three different types of resources that PJM typically dispatches: base load, interday and intraday cycle units.

[NRG Energy Inc.](#), in written [comments](#) that were reiterated at the meeting, suggested PJM get rid of the flexibility requirements. "PJM has stated that the

new premium capacity performance product will need to fill roughly 85% of the total installed capacity requirements of the market, but the current proposal excludes a large percentage of reliable baseload resources from qualifying," NRG said.

"PJM fails to recognize that it may be incenting the development of a less fuel diverse fleet," NRG suggested. Moreover, PJM may be creating requirements that some generators could never satisfy, the company said. "PJM's Proposal appears to be little more than a thinly veiled effort to push an entire category of baseload units with excellent multi-day fuel supplies into early obsolescence."

As for next steps, PJM [plans](#) to provide more details about the proposal in an Oct. 7 document, after which stakeholders will form coalitions and file briefing papers by Oct. 28.