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# PJM's Capacity Market Reform: *A Retreat from Evolution to Expediency*

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MADRI Working Group Meeting #36  
Washington, D.C.  
9 December 2014

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# August 20<sup>th</sup>: A promising start...

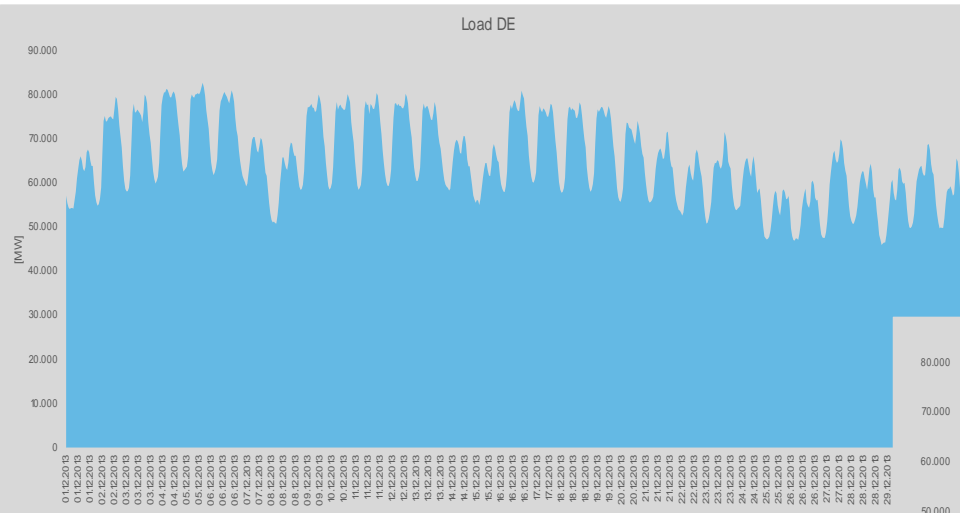
- Updates the definition of the resource adequacy challenge
- Ensures that “firm” means “firm”
- Not very positive for traditional DR but...
- ...encourages necessary evolution of DR
- Recognizes the value of *real* flexibility
- Acknowledges baseload’s one-dimensional contribution to resource adequacy

# ...becomes a lost opportunity

- Regression to ISO New England model
- Speed of implementation & “fighting the last war” have assumed top priority
- Rewards firm, abandons flexibility - perfectly matched to the needs of the 20<sup>th</sup> Century
- Discriminatory new limits on non-Annual DR
- No Limited DR, goal of 100% CP – doesn't PJM's system still peak in the summer?

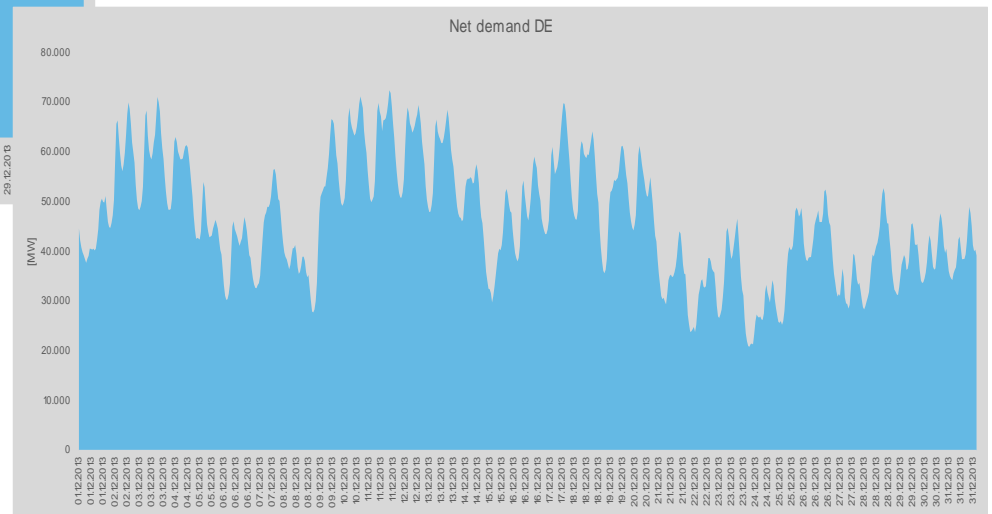
# The “baseload” delusion

*Germany,  
December 2013*



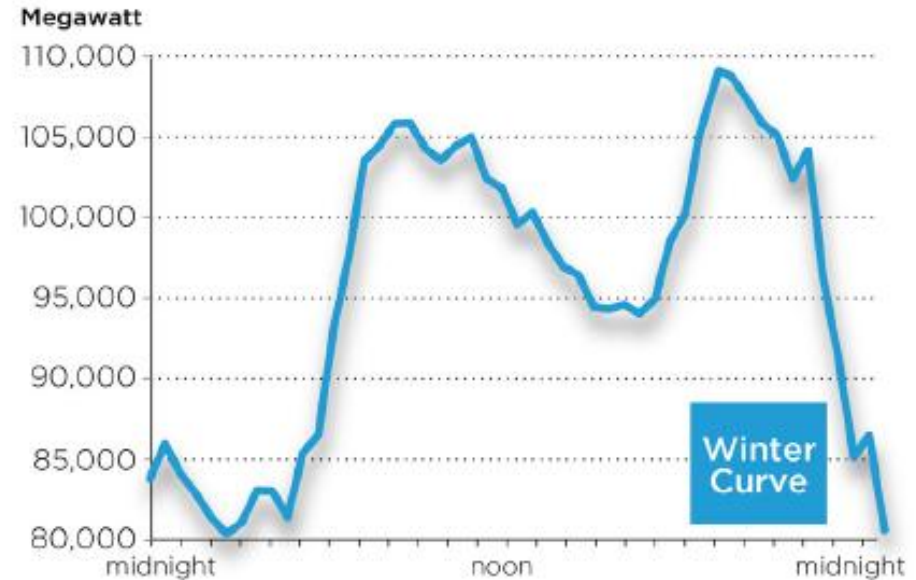
Gross Demand

“Flexibility” takes  
on a whole new  
meaning



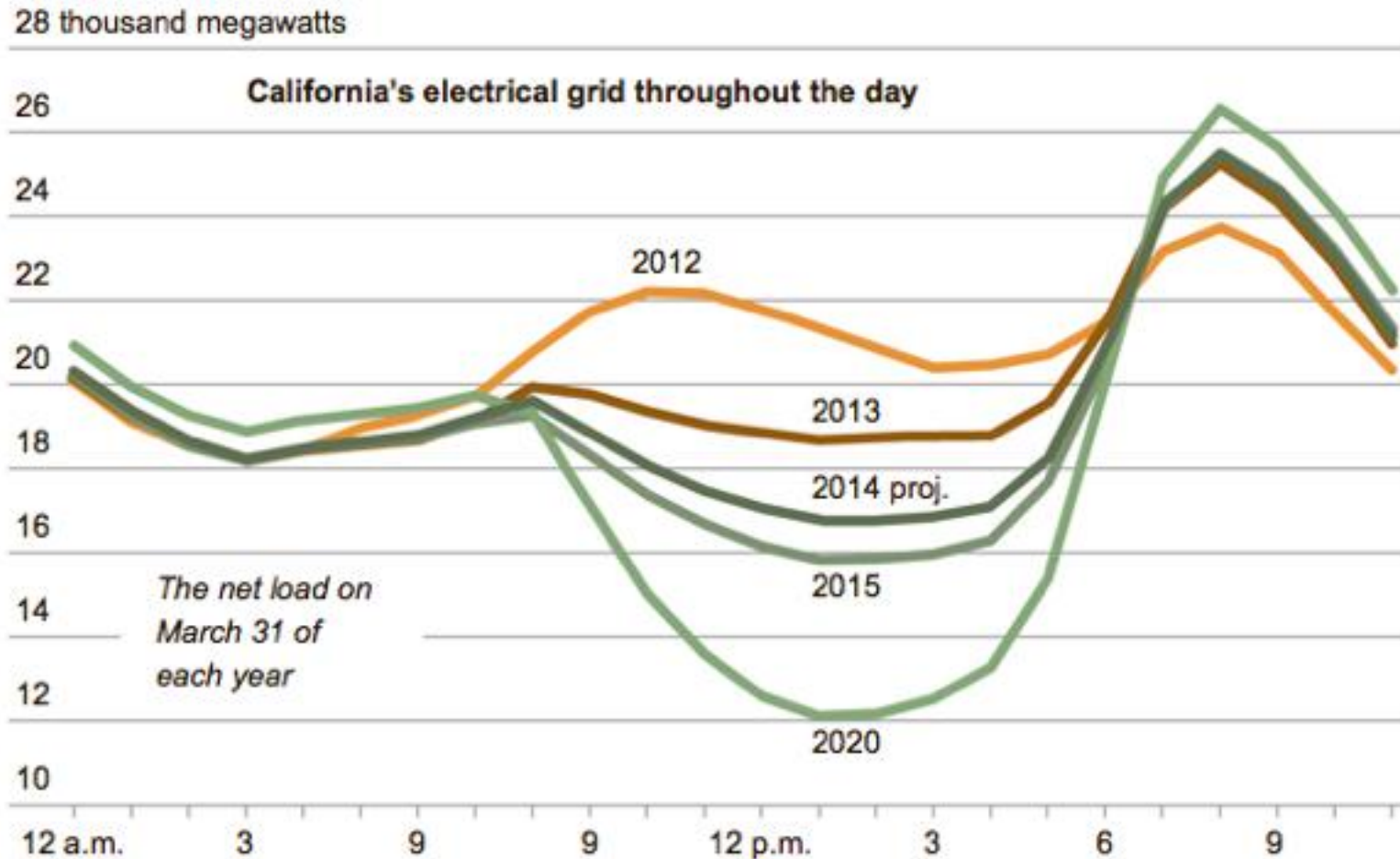
Net Demand

# The “baseload” delusion



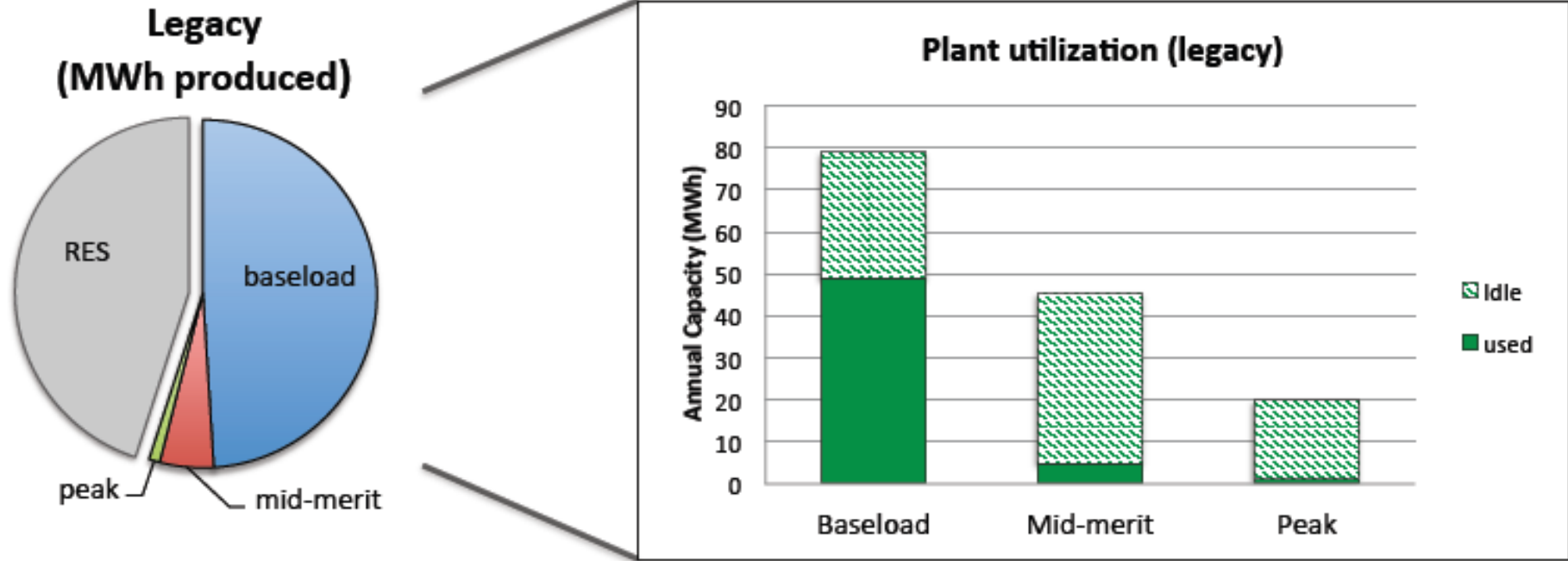
*“...PJM values resource flexibility especially on peak winter days...The ability for resources to be flexible throughout the operating day is integral to efficiently dispatching the system and minimizing uplift.”*

# The “baseload” delusion



Source: CalISO

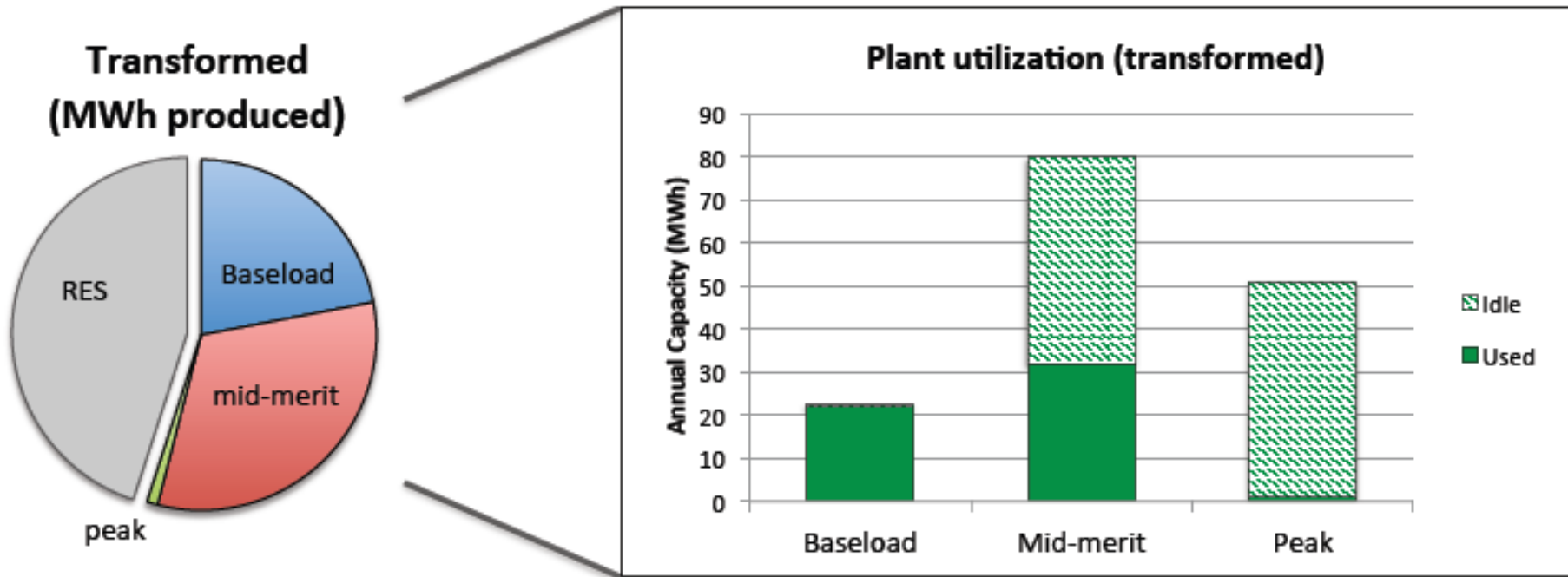
# “How much?” depends on “what kind?”



Reliable, but costly & unstable, with investment based on:

- Single-product capacity mechanisms
- Inflated targets for generation adequacy
- No significant role for demand-side participation
- Flawed energy market implementation

# “How much?” depends on “what kind?”

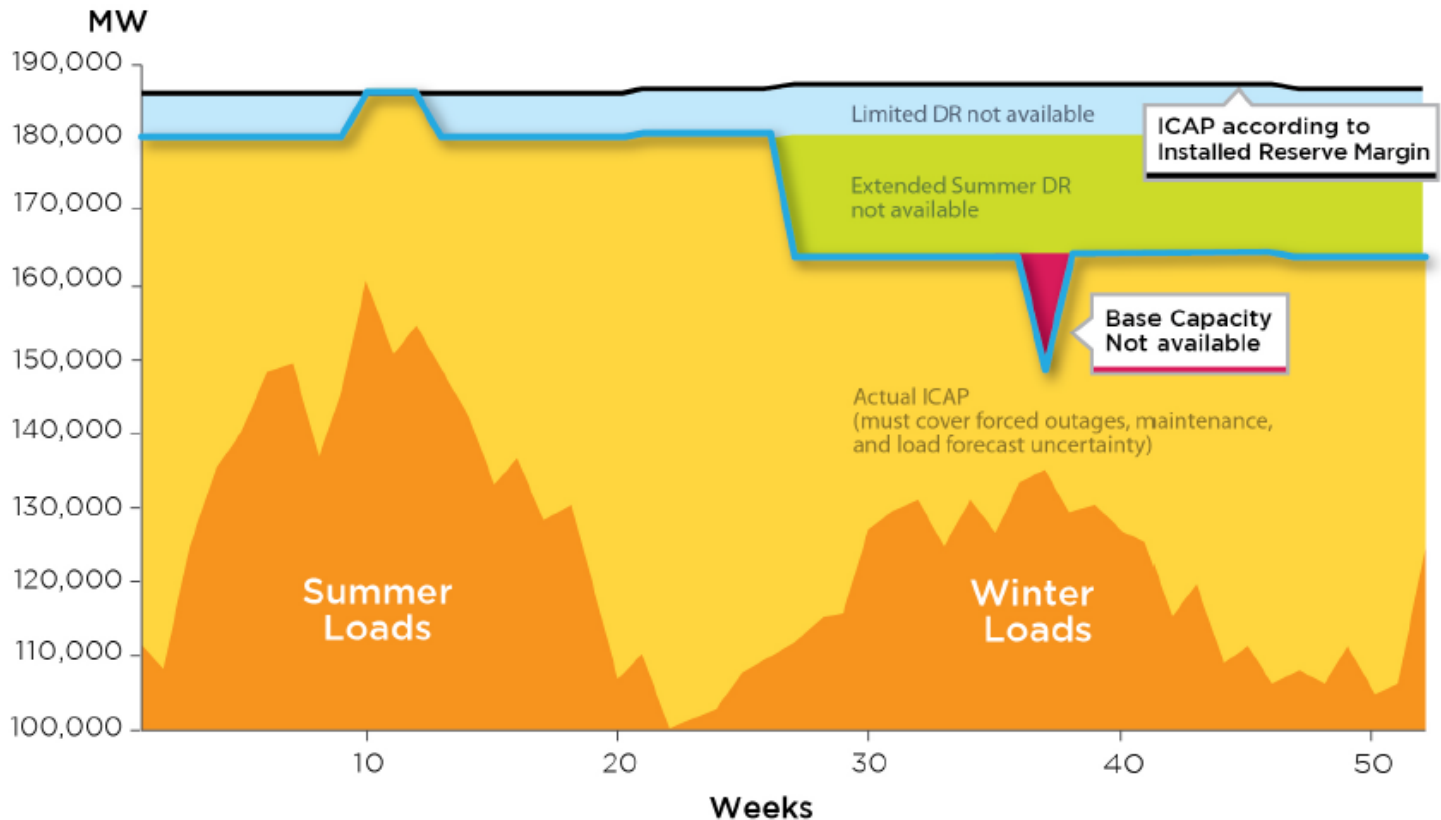


Reliable, low-cost & stable, with investment based on:

- Improved functioning of energy & balancing markets
- Regional resource adequacy assessment
- If desired, a simple multi-product CRM as a safety net
- Full demand-side participation in all markets



# “Summer” resources still have value



A goal of 100% CP? *“PJM proposes to add an enhanced product, called the Capacity Performance Product, which is based on winter peak-load requirements.”*

# Implications for demand side (1)

- Hard to see why Limited DR no longer has any value at all
- Why not an Extended Winter DR product?
- Treatment of Base Capacity generation in LOLE analysis appears far too generous
- Allocation of Base Capacity 10% LOLE impact is arbitrary & ignores cost/benefit

# Implications for demand side (2)

- “Hope is not a strategy”: Assume 745 is gone – states need to get to work, *fast*
- “It’s the energy market, stupid”: focus on ways to make the daily load curve dynamic
- PJM has gone too far, but the sooner DR outgrows capacity market crutch the better
- Value of DR will evolve & grow; venues for DR participation must do the same

## About RAP

The Regulatory Assistance Project (RAP) is a global, non-profit team of experts that focuses on the long-term economic and environmental sustainability of the power and natural gas sectors. RAP has deep expertise in regulatory and market policies that:

- Promote economic efficiency
- Protect the environment
- Ensure system reliability
- Allocate system benefits fairly among all consumers

Learn more about RAP at [www.raonline.org](http://www.raonline.org)

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