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VIA Electronic Delivery Only

Swapna Kanury
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Email: swapna.kanury@pjm.com

Re: PJM Capacity Market Workshop – Session 2

Dear Ms. Kanury:

Shell Energy North America (US), L.P. ("Shell Energy") appreciates the opportunity to provide feedback on the issue of how PJM's capacity markets should evolve. Please find our comments below.

1. **What is the problem are we trying to solve through this effort?**

   The problem to solve is how to accommodate the diverse energy policy objectives of states within the PJM footprint and maintain the efficient operation of the wholesale electricity markets administered by PJM. The fundamental issue that needs to be addressed to solve this problem is defining the purpose of capacity markets. Capacity markets were originally intended to ensure resource adequacy but became a vehicle to replace "missing money." The missing money problem emerged as the RTO/ISOs calibrated market rules to address excessive volatility in energy markets and market manipulation concerns. Over time, capacity revenue became a larger part of a generating resources' revenue stream and then the primary vehicle for ensuring resource adequacy. As the complexity of the centralized capacity market grew, clearing prices became as much of a function of administrative rulemaking as market fundamentals. Accordingly, our goal should be to ensure that all electricity markets administered by the RTO/ISO function as efficiently and transparently as possible while supporting the reliable operation of the electric system as we transition to a generating resource mix that is less carbon intensive.

   How does PJM preserve the efficient and reliable operation of wholesale electricity markets but also accommodate the diverse energy policy objectives of states within the PJM footprint?

   PJM is unique as compared with other RTO/ISOs that administer centralized capacity markets given the diversity of the state policy objectives within its footprint. Any market design that is developed, should address reliability objectives and define the suite of products and services that can be used to meet those objectives.

Stakeholders should work to build a mechanism that allows for the entry of resources that have some form of state policy support into the capacity market on a more predictable and sustained basis. To-date, the process has been haphazard as it allows entry of some resources via exemption mechanisms or a two-tiered approach such as the Competitive Auctions with Sponsored Policy Resources (CASPR) approach applied in New England. These approaches do not appear to be sustainable. A mechanism that provides a more predictable path for entry into the market while ensuring that a resource mix needed to maintain system reliability is supported should be considered.

2. **Do you agree with PJM that we should be attempting to advance this discussion at this time?**

Yes. The Minimum Offer Price Rule is a stop-gap measure that cannot be sustained. Failure to address this now will continue to cause uncertainty for market participants, investors, and policymakers, making the efforts to achieve public policy goals such as reducing carbon emissions in the generation fleet more costly.

3. **What are the principles that possible enhancement should be built upon?**

Shell Energy maintains that a system that relies less on capacity markets and more on energy and ancillary service markets can facilitate the transition to a resource mix that includes more renewable resources, the main policy driver of states within the PJM footprint. This transition should feature an energy price that incorporates the social cost of carbon. A transition can be established to accommodate that price. To be clear, however, Shell Energy is not proposing elimination of capacity markets, rather a reduced reliance on them so that concerns over buyer-side mitigation measures and other administrative elements of the current construct become less important and can hopefully be phased-out.

With respect to the **principles** that should govern the design of the capacity market, Shell offers the items below:

a. Define the reliability objective, and further define the products and quality of those services needed to meet the reliability objective.

b. Define the appropriate role for the capacity market and its relationship with energy and ancillary service markets. Reliance on capacity markets as the primary mechanism for ensuring resource adequacy should be reduced over time as we transition to a system that will require PJM to manage more intermittent resources.

c. Create a product or products that can be traded on a forward basis to allow customers and generators to manage positions and have markets in which they can hedge risks on a forward basis. A forward capacity market could serve this purpose, but issues about transparency and impact of the numerous market rule changes can influence price formation. Accordingly, the viability of these markets would have to be addressed.

d. Create a system that facilitates efficient entry and exit of resources. Products should be developed that meet the needs of the grid of the future and encourage resources with more efficient energy production profiles to replace resources with less efficient ones.

e. Market mechanisms should be designed that are durable, are able to adapt to changing public policy needs, and so that they can be reasonably reconciled with instruments states are using to encourage public policy investments.

4. **Do you have particular issues or a proposed prioritization that you would like to propose?**

Market constructs should be designed in a way that places market risk for the development and operation of all resources on the system with developers/producers. A system that allocates too much of this risk to consumers is not sustainable in the long run. This principle should be a critical element of any design that is developed and must be reconciled with activity at the state level. If this principle is not incorporated in the market design, then the question becomes, what is the ultimate purpose of the markets? States will have to be partners in defining how this goal can be achieved over time.

Sincerely,

Sean Chang

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