

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

PJM Interconnection, L.L.C. : ER14-503-000

**JOINT COMMENTS
SUBMITTED ON BEHALF OF
THE PUBLIC UTILITIES COMMISSION OF OHIO AND THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

December 20, 2013

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I. INTRODUCTION

On November 29, 2013, PJM Interconnection, L.L.C. (PJM), pursuant to section 205 of the Federal Power Act (FPA), submitted to the Federal Energy Regulatory Commission (Commission) an application that delineates proposed stakeholder-driven revisions to its Reliability Assurance Agreement (RAA) and its Open Access Transmission Tariff (OATT) to create Capacity Import Limits for capacity transfers across external PJM interfaces. PJM requests that its revisions become effective on January 31, 2014. PJM's proposed effective date ensures that the tariff amendments be effectuated in time for the February 1, 2014 required posting of governing parameters for PJM's 2017/2018 Base Residual Auction to be held in May of 2014.

PJM does not currently include capacity import limits in its Reliability Pricing Model (RPM); instead, it reviews requests for firm transmission service into PJM. External resources must request and obtain firm transmission service into PJM prior to

the delivery year for which its capacity was offered and cleared in a RPM auction. In order to enhance reliability, PJM proposes that a methodology to determine external capacity transfer limits be adopted similar to the limits that are imposed on internal capacity transfers between zones and areas within PJM.

On December 2, 2013, the Public Utilities Commission of Ohio (Ohio Commission) filed its motion to intervene in this docket and is consequently a party to this investigation. On December 3, 2013 the Pennsylvania Public Utility Commission (Pennsylvania Commission) filed a motion to intervene. On December 2, 2013, the Commission issued an official notice of PJM's filing, and established a comment deadline of December 20, 2013. The Ohio Commission and the Pennsylvania Commission (State Commissions) hereby submit their comments responding to PJM's application to adopt new Capacity Import Limits.

II. BACKGROUND

Capacity imports from external resources serve an important purpose in PJM, especially during emergency conditions. The State Commissions submit, however, that PJM's RPM is increasingly providing, through imports, revenues to generators located outside of PJM's borders. Specifically, the State Commissions note that PJM's 2016/2017 Base Residual Auction (BRA) results reflect a significant increase in capacity imports.¹ For example, 7,482.7 MW of capacity imports offered and cleared in the 2016/2017 BRA

¹ See PJM, 2016.2017 RPM Base Residual Auction Results, available at, <http://www.pjm.com/sitecore % 20modules/web/~media/markets-ops/rpm/rpm-auction-info/2016-2017-base-residual-auction-report.ashx>.

represent an increase of approximately 90 percent, or 3,935.3 MW, over the imports that offered and cleared in the 2015/2016 auction.² The State Commissions believe that, as a result of these imports, PJM's RPM is increasingly providing funding to participants that fail to provide "iron in the ground" within PJM while further eroding the PJM capacity price. Furthermore, of the 7,482.7 MW of imports that cleared the auction, only 4,788 MW (64%) had confirmed firm transmission service at the time of the auction.³ Currently, as external resources must only commit to hold firm transmission just prior to the delivery year, it is possible that some of the imports may prove to be not only uneconomic, but also undeliverable as well. Specifically, during incremental auctions, an internal or external capacity resource provider, in lieu of paying for the necessary firm transmission service, may purchase replacement capacity at lower cost for economic gain while avoiding penalties for failing to deliver the committed resource. The State Commissions aver that these potential reliability issues are concerning, particularly in light of the increasing number of plant retirements both inside and outside PJM's territory.

III. PJM's PROPOSAL

According to PJM, at the time of the RPM auctions, there is no consideration of limits on the ability of the transmission system to support firm transmission into the PJM Region. Furthermore, PJM's current rules for external imports do not recognize the risk

² See PJM, 2016.2017 RPM Base Residual Auction Results, available at, <http://www.pjm.com/sitecore % 20modules/web/~ /media/markets-ops/rpm/rpm-auction-info/2016-2017-base-residual-auction-report.ashx>.

³ *Id.*

that a committed external resource may have its energy deliveries into PJM curtailed in an emergency event. PJM states that its Capacity Import Limits proposal directly addresses both of those risks so that reliability can be accurately priced.

In order to effectively address these reliability risks, PJM points to its current Capacity Emergency Transfer Limit (CETL). CETL determines intra-PJM transfer limits by quantifying the constraints on the system's ability to import capacity into a defined PJM Locational Deliverability Area (LDA). Using a similar methodology, PJM states that it will determine and post the new Capacity Import Limits values each year. Subsequently, PJM will direct that the RPM auctions incorporate the values in the auction clearing process. In place of LDAs, PJM proposes to utilize "source zone" terminology for external deliverability areas. For initial implementation, PJM has determined five such external source zones,⁴ each with differing limits on the amount of capacity that can be delivered to PJM. The actual limits will not be determined until the posting of the first auction parameters once PJM's proposal has been approved.

IV. DISCUSSION

The State Commissions believe that the tariff and operating agreement changes necessary to implement PJM's proposal are just and reasonable. We support PJM's proposed use of CETL methodology as the model to establish its new Capacity Import Limits. This new methodology will greatly improve PJM's ability to address the risks from increasing levels of imports that are not recognized by PJM's current RPM rules.

⁴ *PJM Interconnection, L.L.C.*, Docket No. ER14-503-000, (Nov. 29, 2013) (Application at 19) (PJM Proposal).

A. PJM’s proposal promotes reliability.

PJM states that its firm transmission studies for external resources do not adequately consider the risk that an external system will address congestion on its flowgates by ordering the curtailment of firm transmission into PJM. PJM points out that during the summer-period months of 2009 through 2013, the system averaged five curtailments per month by external systems during emergency events known as Transmission Loading Relief (TLR-5).⁵ The State Commissions agree with PJM that it is reasonable to expect that curtailments into PJM will continue to rise as capacity imports into PJM increase.⁶ Furthermore, with a large number of anticipated retirements in neighboring systems, the risk for curtailments by external operators going into emergency operations to meet their own generation needs increases.

Specifically, on December 5, 2013, MISO released a report that anticipates a potential capacity shortfall, on the high-end, of approximately 7.5 GW by 2016⁷ in the MISO North and Central Regions. Further, the State Commissions have taken notice that any potential capacity shortfalls may cause MISO to go into emergency operations more frequently and curtail the delivery of capacity into PJM.⁸

⁵ PJM Proposal at 6.

⁶ *Id.*

⁷ MISO, MISO-OMS, SURVEY RESULTS SAWG (Dec. 5, 2013), available at <https://www.misoenergy.org/Library/Repository/Meeting%20Material/Stakeholder/SAWG/2013/20131205/20131205%20SAWG%20Item%2003%20OMS%20MISO%20Survey%20Results.pdf>.

⁸ *E.g.*, Mark Watson, *MISO Board Frets over Generation Losses Expected by 2016*, PLATTS, Aug 22, 2013, available at <http://www.platts.com/latest-news/electric-power/houston/miso-board-frets-over-generation-losses-expected-21458410>

In light of the hot weather events that occurred in PJM's territory and within Ohio and Pennsylvania during July and September of this year,⁹ the State Commissions are concerned about the reliability issues posed by the curtailments of capacity and energy resources from external resources that PJM's load depends upon for peak or emergency service. As PJM remarks, "External capacity can fairly be considered a true equivalent of internal capacity when each is under the electrical control of the same operator."¹⁰ The State Commissions submit that by definition, an external resource will never be under the control of PJM. Therefore, allowing PJM to impose reasonable limits on the amount of imported capacity from external regions, as it does today for native capacity, ensures reliability and should be adopted by the Commission.

B. PJM's proposal prevents internal resource inadequacy.

As PJM explains, whether or not the existing transmission system allows an external resource to be deliverable to PJM is often not determined until after the resource has been offered and cleared in PJM's RPM. As a result, the system operator may determine, subsequent to the auction but prior to the delivery year of the committed resource, that the required firm transmission service cost will outweigh the revenue earned by the resource's capacity commitment. The State Commissions are concerned that this may cause an external generator to either: 1) pay a resource deficiency penalty rather than pay

⁹ PJM, *Initial Analysis of Operational Events during the September 2013 Heat Wave* (2013), <http://www.pjm.com/sitecore%20modules/web/~media/documents/reports/20130923-initial-analysis-of-operational-events-during-the-september-2013-heat-wave.ashx>.

¹⁰ PJM Proposal at 8.

for the transmission upgrades, or 2) anticipate the cost of replacement capacity and buy out of its position in an incremental auction. Under either scenario, the consequence of this action falls on PJM's loads that were expecting to receive resources to meet peak and emergency needs; and, the result is an economic benefit to the offering resource at the expense of ratepayers within PJM.

Further serving to erode resource adequacy in PJM, is the fact that RPM clearing prices are a major consideration of power plant operators when weighing plant retirement options. The State Commissions submit that if a plant's retirement decision is based, at least in part, on an RPM price that does not accurately reflect actual deliverable supply, then the lower price is an untenable trade-off when the lights go out due to resource inadequacy. The State Commissions agree that PJM's proposal to adopt Capacity Import Limits permits imports from external resources at a level that can be reliably delivered to PJM and should be adopted by the Commission.

C. PJM's proposal strikes a reasonable balance.

In support of its application, PJM explains that it applied its proposed methodology to current data samples and determined that the effect of its new model would be to limit simultaneous Capacity Imports to PJM to 6,200 MW. According to PJM, this figure is higher than any firm capacity imports PJM has actually received in any delivery year, but is below the total amount of generation that cleared in the most recent BRA for the

2016-2017 Delivery Year (*i.e.*, 7,482.7 MW).¹¹ The State Commissions agree with PJM that the level of capacity sales that are actually delivered into PJM, as seen in recent years, should not be disturbed by this proposal, and external capacity will continue to flow into PJM with reasonable limits. The State Commissions encourage the Commission to adopt this new methodology in order to prevent the clearing of capacity import offers (*e.g.*, 6,200 MW in PJM's sample) that are above the level that can be reliably delivered to PJM.

V. CONCLUSION

For the foregoing reasons, the State Commissions urge the Commission to approve PJM's application to adopt a Capacity Import Limit for external resources within its OATT and OA without modification. The State Commissions also request that the Commission approve a January 31, 2014 effective date for the proposed amendments. This date will allow PJM to include the new Capacity Import Limit as part of its February 1, 2014 posting parameters for the Base Residual Auction for the 2017/2018 Delivery Year.

¹¹ PJM, 2016.2017 RPM Base Residual Auction Results, *available at*, <http://www.pjm.com/~media/markets-ops/rpm/rpm-auction-info/2016-2017-base-residual-auction-report.ashx>.

Respectfully submitted,

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On behalf of

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Pennsylvania Public Utility Commission

VI. CERTIFICATE OF SERVICE

I hereby certify that the foregoing have been served in accordance with 18 C.F.R. Sec. 385.2010 upon each person designated on the official service list compiled by the Secretary in this proceeding.

/s/ Thomas W. McNamee

Thomas W. McNamee

Dated at Columbus, Ohio this December 20, 2013.