UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM INTERCONNECTION, L.L.C.	))	**Docket No. ER14-503-000**

COMMENTS OF THE PJM POWER PROVIDERS GROUP

On November 29, 2013, PJM Interconnection, L.L.C. ("PJM"), pursuant to section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, submitted revisions ("Capacity Import Limits") to the PJM Open Access Transmission Tariff ("Tariff") and the Reliability Assurance Agreement among Load Serving Entities in the PJM Region ("RAA") to recognize limits on the amount of capacity from external resources that PJM can reliably import into the PJM Region.[1] On December 4, 2013, the PJM Power Providers Group ("P3")[2] filed a doc-less Motion to Intervene in this docket.

P3 respectfully requests that the Federal Energy Regulatory Commission ("Commission") accept PJM's Capacity Import Limits Filing as a just and reasonable means of addressing a growing concern in PJM caused by a gap in the current rules governing PJM's capacity market. P3 supports the filing made by PJM in this docket, as well as the requested implementation date of January 31, 2014, as further explained in the below comments:

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[1] *PJM Interconnection, L.L.C.,* Docket No. ER13-503-000, November 29, 2013 ("Capacity Import Limits Filing").

[2] 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.

- PJM's proposed Capacity Import Limits are needed to bridge the gap in Tariff authority that currently exists in PJM between internal and external capacity resource offers;
- The proposed Capacity Import Limits are necessary to ensure the reliability within PJM;
- The proposed Capacity Import Limits are necessary to ensure accurate capacity price signals within PJM;
- PJM's Capacity Import Limits Filing was overwhelmingly supported by the PJM stakeholders; and
- P3 supports the timing of PJM's proposed Capacity Import Limits – becoming effective on January 31, 2014, before the next Base Residual Auction ("BRA") - as appropriate and necessary.

I. COMMENTS

A. PJM's proposed Capacity Import Limits are needed to bridge the gap in Tariff authority that currently exists in PJM between internal and external capacity resource offers.

The Capacity Import Limits Filing is a direct response to a significant gap in PJM's Tariff authority that has, in part, led to an unprecedented amount of both offered and cleared externally-imported capacity resources participating in PJM's BRA over the past several capacity auctions. While PJM's Tariff includes transferability limits in its locational capacity rules applicable to *internal* resources, via the Capacity Emergency Transfer Limit ("CETL"), PJM's Tariff lacks an analogous provision to incorporate RPM auction clearing process limits applicable to *external* resources.[3]

P3 has consistently supported the concept that capacity should be able to move freely across RTO borders provided that the capacity is deliverable to load. While capacity imports – both internal and external – are an important and, at times, necessary and appropriate facet of Regional Transmission Organizations ("RTOs"), such as PJM, a significantly high level of -

[3] PJM Capacity Import Limits Filing, *supra*, at p. 3.

imported capacity can have unintended consequences to both the short-term and long-term operational and reliability functionality of the market. These problems are compounded when market rules treat external resources differently than internal ones. Significantly, external capacity resources are not subject to the same transferability requirements (described above) and are not required to offer their capacity in PJM in subsequent years, leading to the possibility of large amounts of external capacity leaving the market in any given year.[4] The different rules impact the prices offered into the market, and result in unjust and unreasonable and unduly discriminatory rates.

As PJM explained in detail in its Capacity Import Limits Filing, the PJM market has seen a dramatic increase in capacity imports offered into the RPM's BRA over the past several auctions. Of significance, the May 2013 BRA recently witnessed external capacity import offers that *increased by over 80%* compared to the prior year's auction (May 2012) BRA.[5] While the PJM Capacity Import Limits Filing focused on the significant increase in imports *offered* in the last several BRAs, PJM's Independent Market Monitor ("IMM") has recently found that most of those imported offers actually cleared. Specifically, in the latest State of the Market Report for PJM, the IMM found that "of the 7,493.7 MW of imports offered in the 2016/2017 RPM Base Residual Auction, 7,482.7 MW cleared. Of the cleared imports, 4,723.1 MW (63.1 percent) were from MISO (the Midcontinent Independent System Operator)."[6]

The fact that PJM has seen such a dramatic rise in both offered and cleared imports from external capacity resources means that PJM will be increasingly relying on external resources to meet the reliability needs of the RTO. As units continue to retire in PJM at a rapid pace, it is

[4] Resources internal to PJM must offer their capacity into the BRA unless provided an exemption by the PJM IMM.
[5] PJM Capacity Import Limits Filing, *supra*, at p. 4.
[6] 2013 State of the Market Report for PJM (January through June), Monitoring Analytics, August 15, 2013, at p. 138.

critical that external resources that are committed to providing capacity to PJM are able to actually deliver those megawatts when they are called in the same manner in which the current Tariff requires internal capacity resources.

B. The Proposed Capacity Import Limits Are a Necessary Means to Ensure The Reliability Needs within PJM.

As PJM notes, "[a] basic purpose of RPM is to make physical limits on the movement of capacity visible to market participants through price signals."[7] The movement and visibility emphasized by PJM supports reliable operations in PJM. Therefore, physical capacity availability and deliverability is paramount to ensure that the reliability of the PJM market. As discussed below, import deliverability can be impacted by: (1) curtailments by third party systems, (2) the need for financially prohibitive transmission upgrades, and (3) resource adequacy in neighboring regions.

Import deliverability can be harmed by curtailments from third party systems, and the fact that PJM's current Tariff-authorized auction parameters do not account for the risk that an external resource may be prevented from providing energy to PJM at critical times, due to curtailments most typically in the form of a third-party system's level 5 Transmission Loading Relief ("TLR-5"), establish one of the most pressing needs for PJM's proposed Capacity Import Limits. The fact that PJM has no control over another RTO's use of a TLR-5 on capacity resources that have been committed to PJM is of great concern to P3 and other interested stakeholders that must rely upon PJM to meet the reliability and resource adequacy needs of its members.

P3 also agrees with PJM that there are limits on the amount of capacity imports into PJM that can be accommodated without upgrades or additions to its transmission facilities. PJM

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[7] PJM Capacity Import Limits Filing, *supra*, at p. 3.

rightfully notes that because it does not currently have tariff authority to include a locational constraint in the RPM Auctions that correspond to the region's capacity import capability *before* receiving import offers, it may not be capable of delivering to PJM both the external capacity committed to PJM through RPM *and* the 3500 MW of emergency outside assistance on which PJM relies to reduce its required Installed Reserve Margin.[8] Moreover, P3 would be concerned if the cost to actually reinforce the transmission systems inside or outside of PJM to accommodate increasingly cleared external capacity resources becomes so high that it is less costly for a resource to buy out of, or even default on, its obligation rather than actually provide the promised capacity supply service. In addition to creating potential reliability concerns, this practice could also improperly impact BRA clearing price signals as external resources that do not include all costs in their offers (including transmission upgrade costs) could displace internal resources that will be prematurely forced into retirement and will be unavailable to fill the need if the external resource does not materialize or is subject to a TLR-5.

In addition, while the reliability needs of the PJM market are of paramount importance to PJM and its stakeholders, the resource adequacy conditions and needs of neighboring RTOs support the need for the proposed Capacity Import Limits. Most notably, as PJM's IMM has found, the majority (63%) of the exported capacity into the PJM region emanates from MISO. Yet MISO's recent 2016 Resource Adequacy Summary for its Central and North Regions indicates that, not counting on mid- and low-probability resources, the combined regions will experience a net reserve shortfall of 7.5 GWs, resulting in an expected installed reserve margin of only 7%.[9] While this is a very serious situation that, theoretically, should result in *less* capacity being exported from MISO into PJM in the current and coming years, that does not

[8] PJM Capacity Import Filing, *supra*, at p. 10.
[9] MISO Supply Adequacy Working Group (SAWG), MISO-OMS Survey Results, December 5, 2013, p. 3.

appear to be the case. As PJM's forward capacity market operates on a three-year forward basis, meaning this past May 2013's BRA was held to procure capacity for the 2016-2017 Delivery Year, it is clear that MISO's impending capacity shortfall – in 2016 – is having no impact whatsoever on lessening its capacity exports to PJM. Quite the opposite, as the 2016-17 Delivery Year import offers (and subsequent actual, cleared capacity) from MISO to PJM were a record high for both RTOs. P3 is concerned that the reliability in both RTOs could be in question given the looming shortages in the Midwest at a time when a substantial amount of their capacity is committed to PJM.

C. PJM's proposed Capacity Import Limits Filing was overwhelmingly supported by the PJM stakeholders.

PJM's proposed Capacity Import Limits proposal was vetted at numerous PJM stakeholders meetings and enjoyed exceptionally strong support in each of the three committees within which it has been discussed during the fall of 2013. On November 21, 2013, a wide majority of PJM stakeholders overwhelmingly endorsed the Capacity Import Limits at the PJM Members Committee (4.26 in favor, i.e., 85% on a sector basis). P3 believes that this strong stakeholder support is yet another indication of the need for the Commission to approve PJM's Capacity Import Limits as filed.

D. P3 supports the timing of PJM's proposed Capacity Import Limits – becoming effective on January 31, 2014, before the next BRA - as appropriate and necessary to ensure the reliability of the PJM Region.

The dramatic rise in both the offered and cleared capacity imports into the PJM Region, at a time when PJM has absolutely no Tariff authority to model, adjust, plan for, or limit them into its marketplace, strongly supports PJM's need to impose the requested RAA and Tariff amendments regarding Capacity Import Limits on January 31, 2014, before PJM must publish the Planning Period Parameters for the next BRA. As PJM has stated, the reliability needs of its market and the resource adequacy needs of its members may be jeopardized if PJM continues to lack any authority to impose reasonable limits on external capacity imports into its region. Therefore, the Commission should adopt the Capacity Import Limits Filing, as proposed by PJM, as just and reasonable amendments to PJM's RAA and Tariff.

II. CONCLUSION

For the foregoing reasons, P3 respectfully requests that the Commission consider its comments, and accept the PJM's Tariff and RAA revisions to be effective on January 31, 2014.

Respectfully submitted,

On behalf of the PJM Power Providers Group

By: *__/s/ Glen Thomas__*____________

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Dated: December 20, 2013

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the Official Service List compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 20th day of December, 2013.

On behalf of the PJM Power Providers Group

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