

**State of New Jersey
Board of Public Utilities
Energy Division**

**In the Matter of the Board's Investigation of :
Capacity Procurement and Transmission : Docket No. EO 11050309
Planning :**

Comments of PJM Interconnection, L.L.C.

I. Introduction

On September 27, 2011, the New Jersey Board of Public Utilities (Board) issued an Order (September 27 Order) initiating a second hearing in the above captioned proceeding. The September 27 Order identified questions the Board specifically wanted to explore and scheduled a hearing for October 14, 2011, to solicit comments addressing those questions. Mike Kormos, Senior Vice President – Operations for PJM, proffered oral testimony focused on the questions related to PJM's interconnection process and committed to supplementing the record to provide details requested by the Board during the hearing.

In addition to a request for oral comments, the September 27 Order invited parties to submit written comments by October 31, 2011. Accordingly, PJM submits the following comments: (i) summarizing the status of the proposals currently under discussion with PJM stakeholders which are intended to improve the PJM interconnection process, (ii) providing additional information requested by the Board during the October 14 hearing, and (iii) responding to issues raised by another witness during the October 14th hearing. Finally, as Mr. Kormos did not address the RPM

capacity market or the Fixed Resource Requirement questions raised by the Board in its September 27 Order, PJM's submits comments addressing those questions.

II. Comments

A. Improving the Efficiency of the Interconnection Process

During the Board's June hearing in the above captioned proceeding, Mr. Kormos indicated that PJM initiated a stakeholder process in April to identify and address inefficiencies in the PJM interconnection process that may hamper the ability of viable generation projects timely to proceed to commercial operation and welcomed the Board's participation in that stakeholder discussion. Since then the stakeholders have made significant progress and the Board has followed the stakeholder discussions and even submitted a letter voicing its perspective on the various potential changes under discussion.¹ PJM appreciates the Board's participation in PJM's stakeholder process.

1. Background

Two major federal policies underlie the PJM interconnection process: (1) the interconnecting customer must pay its "but for" interconnection costs, and (2) the interconnection process may not be discriminatory. The "but for" test to determine interconnection cost responsibility creates a natural tension between finding and resolving all reliability violations caused by the interconnecting project and the interconnecting project's desire to minimize cost. The cost risk is on the interconnecting project, not the Transmission Owner or the retail customers in the Transmission Owner's territory. Each interconnection project must be studied individually to ensure

¹ The Board's letter was posted to the Interconnection Process Senior Task Force page of the PJM website at <http://www.pjm.com/~media/committees-groups/task-forces/ipstf/20110928/20110928-pjm-interconnection-letter.ashx>.

that all interconnection related costs are borne by the interconnecting project, and each project in an earlier queue position must be resolved before subsequent projects can be resolved. If an earlier project changes its physical characteristics or drops out of the queue, the remaining projects must be restudied, causing potentially significant delay in the finalization of both interconnection study results and cost responsibility.

The requirement that the process be nondiscriminatory means that PJM not pass judgment on the merits of one project over another or on one developer over another in shepherding the projects through the interconnection process. Incumbent generation owners and new developers must have equal access to the process: the process assigns queue positions solely based on when the project is submitted for study. Additionally, the process must not create barriers to enter the PJM market.

The challenges facing the PJM interconnection process are most apparent in congested areas of the PJM system where the volume of projects seeking to interconnect, the limitation of the underlying transmission or distribution system to support that volume of projects, and the constant need to restudy as projects significantly change their size or configuration or drop out of the queue. These factors place competing pressures on the ability to finalize interconnection study results and provide realistic estimates of interconnection upgrade costs to project developers who need a measure of certainty in those results to proceed with project financing.

The process could be expedited by shifting the responsibility for upgrade costs from the interconnecting project to the retail customers in the Transmission Owner's zone in which the developer seeks to connect its project. There no longer would be an incentive for the generation developer to modify its project to try to avoid certain

identified upgrade costs it would bear, thereby lessening the need for restudies. All costs would be borne by the retail customers in the Transmission Owner's zone. However, the PJM stakeholders have not supported changing the "but for" cost allocation policy, which has roots in the Federal Energy Regulatory Commission's Order 888 and was reaffirmed in Order No. 2003.

Instead, the PJM stakeholders have focused on process improvements that would result in more consistent and realistic assessments of interconnection requirements and cost, more timely completion of project studies, and greater transparency in the interconnection process.

The PJM stakeholders have identified a number of initial enhancements that could be made to the interconnection process which, collectively, PJM believes will dramatically improve the process and allow projects that are ready to move forward to do so. These include: (1) moving to a new 6-month interconnection queue cycle from the existing 3-month interconnection queue cycle; (2) process changes to implement a "sliding queue"; and (3) establishing a separate process for interconnecting 20 MW and below projects. Also included in these initial enhancements are modifications to the provisions concerning the utilization of Capacity Interconnection Rights by queued generation projects and limitations on suspension rights to provide for more certainty and to mitigate adverse impacts on projects in the queue.

2. Interconnection Process Improvements Under Consideration

a. 6-Month Queue Cycle

The existing queue timeline is made up of four 3-month queues each year. After a developer enters the interconnection queue, a series of studies are performed to identify the impacts to the transmission system of the various interconnection projects in the queue. Given the timing of the study process and the duration of the queue, there is significant overlap between the queues and queue studies. The existing process for feasibility studies has a three month study window followed by one month for developers to make a decision if they want to move to the next study. However, given the overall queue timeline, feasibility studies for the next queue must be started before the decisions of developers from the previous queue have been made about moving forward with the interconnection process. Additionally, a significant number of projects drop out of the queue after the feasibility study is completed. As a result, feasibility studies for projects include the contribution from previously queued projects that may have already dropped out of the interconnection queue. In some cases those contributions of the previously queued projects, when added to the contribution from the unit being studied, drive the need for transmission system upgrades that the generation developer would be required to complete as a condition of interconnecting with the system. There is a similar overlap for projects that have moved to the Impact Study phase of the interconnection process.

The proposed 6-month queue cycle process includes a two month period after the feasibility study and impact study are completed before the feasibility studies and

impact studies for the next queue would start.² This two month window will provide PJM with the opportunity to incorporate the decisions of the developers for previously queued projects into the base case development and studies that are done for the next queue. As a result, the studies will be based on the latest information available to PJM and provide the developers with a more accurate assessment of necessary upgrades.

b. Sliding Queue

One of the issues that has resulted in interconnection study completion delays has been the need to incorporate changes requested by developers of previously queued projects. It is not uncommon for a developer to change the size of its project in an effort to reduce the overall impact of the project on the transmission system and eliminate the need for particular upgrades. This change in the size of a project requires PJM to restudy the impact of the reduced project and often has a direct, material impact on subsequent queued projects. The additional studies delay the overall study process and introduce additional uncertainty for other projects in the queue given the often cumulative effect of queued projects on the need for a particular upgrade.

The sliding queue process is being proposed to address this issue. A developer will still be allowed to change the size of its project. With the “sliding queue” process, if a developer chooses to change the size of its project following either the feasibility study or impact study, and if such reduction is determined to be a Material Modification (as that term is defined in the tariff to mean an adverse impact on the timing or cost to a subsequently queued project), then it will “slide” to the beginning of the next queue to be

² The proposed timeline results in a three month period between when the Feasibility Studies are completed until when the next studies are started, a two month period following when the customer responses are due and the next study starts, and a one month period following when the queue closes and the next study starts.

studied with the next group of projects. It will lose priority among the projects with whom it entered the queue but will continue to maintain priority over projects in the subsequent queue. The projects that are not making any changes, or whose changes do not constitute a Material Modification, will move forward to the next study phase and will not be delayed while the change in the other project is being evaluated.

It should be noted that the “sliding queue” process is enabled by the 6 month queue changes described above. Decisions about project size (just like the decision to move forward or not move forward) would be incorporated as a starting point assumption for the next round of feasibility or impact studies.

c. Interconnecting Projects that are 20 MW or Smaller

The existing interconnection study process was established to identify the upgrades that are required to interconnect projects with the system and to identify cost responsibility for those upgrades. PJM’s Tariff defines how cost responsibility for upgrades are allocated based on a specific project’s impact on an overloaded facility.³ Currently, all projects in a queue, regardless of size are studied together. Projects that are 20 MW or smaller typically only have a local impact and are not likely to contribute to the need for an upgrade based on the cost allocation rules that are defined in the PJM Tariff. Recognizing this, these smaller project could be studied separately from other projects in the queue that are more likely to contribute to the need for upgrades. The PJM stakeholders are developing a screening process that would be used to identify projects that do not need to be studied with the other larger projects in the queue. The processing of the 20 MW and smaller projects that meet the screening

³ PJM Open Access Transmission Tariff (PJM Tariff) at § 217.

criteria would be able to use a streamlined study process intended to identify the more local impacts that these projects generally have on the system. Over the last 2 ½ years, approximately 66% of all queued projects have been 20 MW or smaller. Removing these projects from the queue of larger projects also will benefit the larger projects as well.

The stakeholders are working to finalize the three proposals outlined above. Tariff language to implement all of them has been drafted and currently is being reviewed by the Interconnection Process Senior Task Force (IPSTF). Once endorsed by the IPSTF the language will be forwarded to the Markets and Reliability Committee for endorsement and then to the Members Committee for approval. Following Members Committee approval, the tariff revisions will be filed with the FERC. It is PJM's goal that the FERC filing be made in January or early February 2012 with a projected implementation date of May 1, 2012.

3. Allowing Projects to Advance Ahead of Others with Senior Queue Positions

Some have argued that a simple solution to ensure projects that are ready to proceed to construction may go forward is to allow such projects to move ahead of others in the queue, or to “breakaway.” On its face, that sounds like an obvious solution; however, the complexity of that suggestion is only understood when you peel back the onion and evaluate what potential cost responsibility shifting may occur and additional restudies that may be needed.

The main goal of the breakaway proposal is to limit the risk of the interconnecting project that breaks away – both the risk of delay in finalizing the interconnection studies

and of having additional interconnection costs imposed on the project. For a project to break away, PJM would need to study that project separately and identify necessary transmission enhancements and costs for that project in isolation from the other projects in the queue as well as restudy all the remaining projects in the queue to account for the breakaway project moving forward. Both studies require additional time and would occur at a point where all such projects would already be in the middle of Facilities Studies to finalize their Interconnection Service Agreements.

The breakaway project is seeking to cap its cost exposure by isolating itself from the cumulative effects of other projects in the queue impacting the transmission upgrades that would be required to reliably interconnect. While that may be appropriate if that project proceeds and the remainder do not; it may not be appropriate if that project ultimately decides not to proceed or if it delays to a point beyond the other projects that remained in the queue. This is a potential issue that the PJM stakeholders have identified as needing to be addressed in the breakaway proposal. Additionally, questions arise as to the potential effects on the projects that remain in the queue. Will any drop out? Will they drop out only because their cost responsibility was increased as a result of allowing a project to break away? What if projects drop out of the queue and the breakaway project does not then proceed to development? Are there any gaming concerns raised if a breakaway project ultimately does not proceed to development?

The current rules allow projects that wish to “advance” ahead of other prior queue projects to do so once they have executed an interconnection service agreement.⁴ They must provide financial security to cover all the upgrades that would be needed if all the projects ahead of it in the queue were to proceed and is entitled to a

⁴ See PJM Tariff at § 220

refund of the cost of the upgrades by the entity bearing the cost responsibility for such upgrades. PJM restudies that project in isolation to determine what transmission enhancements are immediately needed to allow that project to interconnect, and to determine what additional transmission enhancements may be necessary if other projects move forward also at some point. Ultimately, the advancing project pays only its cost to interconnect but for some period it would have had to provide security to cover additional upgrades that would be necessary if other projects ahead of it in the queue were to proceed.

PJM appreciates that the current rules place a level of uncertainty and risk on a project that desires to advance ahead of prior queued projects. It may be possible to fashion a breakaway proposal to address the complexities noted above, and the PJM stakeholders are continuing to discuss elements that would be required for a breakaway proposal. PJM, however, believes that the three proposals described above significantly will improve the interconnection process. The delays projects – especially projects in congested areas -- experience today largely stem from the need to restudy the results when other projects change or drop from the queue. If projects that change have to drop back to another queue position, by definition, those that remain are ready to proceed through the remainder of the interconnection process.

4. Interconnection Process Milestones

In discussing the “breakaway” concept during the hearing, President Solomon inquired whether the imposition of steeper non-refundable study deposits would be a more appropriate incentive to advance ready projects ahead of others in the in the interconnection queue. Tr. at 21. In other words, if the financial hurdle is low, then

projects that may not be ready may still proceed because they are not financially disincented from doing so. Additionally, Commissioner Fiordaliso requested Mr. Kormos to provide the details of the deposits and other milestones that are required at each of the interconnection study stages. Tr. at 45.

The current rules were designed to ensure there were no barriers to entry – so small projects may compete with large projects, developers with less financial wherewithal may compete with developers with greater financial wherewithal. Each phase of the process establishes various milestone responsibilities for the developer, with increasing financial obligations at each stage as well.⁵ While increasing the deposits may weed out those projects that are less likely to proceed to construction, a balance must be struck such that the deposits do not become a barrier to entry in contradiction to FERC’s requirement that the interconnection process be non-discriminatory. PJM stakeholders currently are discussing proposals to modify the deposits applicable to projects that are 20 MW or below as the current deposits are viewed as being fairly small.

In 2003, the FERC issued Order No. 2003.⁶ Order No. 2003 required all public utility transmission providers to adopt standard interconnection procedures and standard interconnection agreements for new generator interconnection requests for Large Generators of 20 MW or greater. Subsequently, in 2005, the FERC issued Order

⁵ See PJM Tariff at Parts IV and VI, and PJM Manuals 14-A and C.

⁶ See *Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003, 68 Fed. Reg. 49,846 (Aug. 19, 2003), FERC Stats. & Regs., Regs. Preambles Vol. 3 ¶ 31,146 (2003) (“Order No. 2003”), *order on reh’g*, Order No. 2003-A, 69 Fed. Reg. 15,932 (Mar. 26, 2004), FERC Stats. & Regs., Regs. Preambles Vol. 3 ¶ 31,160 (2004) (“Order No. 2003-A”), *order on reh’g*, Order No. 2003-B, 109 FERC ¶ 61,287 (2004).

No. 2006⁷ establishing a streamlined interconnection process for generators 20 MW or less, as well as Order No. 661⁸ to revise the standard interconnection procedures and agreements to include requirements specific to large wind generator facilities. The Order No. 2003 interconnection procedures and agreements govern the interconnection process from the initial interconnection request to the execution and filing of the agreements.

To start the process under the PJM Tariff, the project developer must submit to PJM an executed Feasibility Study Agreement, which details the location of the site, site control, size of the generator or increase to an existing unit, description of the equipment configuration, whether the resource will be an energy and/or capacity resource, planned commercial operation date, among other details. In the Feasibility Study, PJM seeks to preliminarily determine the type and scope of attachment facilities and upgrades that will be required to accommodate the interconnection request and to provide the developer with a preliminarily estimate of the time that will be required to construct such facilities and upgrades and the customer's cost responsibility. The required deposit for the Feasibility Study depends on the size of the project and the month in which the project enters the queue. The maximum initial deposit is \$100,000. The project developer also must submit a non-refundable deposit based on the month in which the project enters the queue, with the maximum non-refundable deposit being

⁷ See *Standardization of Small Generator Interconnection Agreements and Procedures*, Order No. 2006, 70 Fed. Reg. 34,100 (Jun. 13, 2005), FERC Stats. & Regs. Preambles Vol. III ¶ 31,180, *order on reh'g*, Order No. 2006-A, 70 Fed. Reg. 71,760 (Nov. 30, 2005), 113 FERC ¶ 61,195 (2005).

⁸ See *Interconnection for Wind Energy*, Order No. 661, 70 Fed. Reg. 34,993 (Jun. 16, 2005), FERC Stats. & Regs. Preambles Vol. 3 ¶ 31,186 (2005) ("Order No. 661"), *order on reh'g*, Order No. 661-A, 70 Fed. Reg. 75,016 (Dec. 19, 2005).

\$30,000. PJM uses due diligence to complete the study within 90 days after the queue closes.⁹

After completing the Feasibility Study, PJM tenders the project developer a System Impact Study Agreement for execution to formally determine whether the project desires to move to the next stage. The developer has 30 days upon PJM's tendering of the agreement to execute and return it to PJM. Upon execution of the System Impact Study Agreement, PJM begins a comprehensive regional analysis of the facility's impact on the system and an evaluation of the deliverability of the unit's energy to load. PJM requires the following deposits at this stage:

- For facilities greater than 100 MW a non-refundable deposit of \$50,000 and a refundable deposit based on the unit's size not to exceed \$300,000
- For facilities greater than 20 MW but less than or equal to 100 MW a non-refundable deposit of \$500 for each MW
- For facilities less than 2 MW a non-refundable deposit of \$5,000.

Additionally, PJM requires the project developer to (i) demonstrate that it has made an initial application for the necessary air emission permits, if any; (ii) specify whether it desires to connect as a Capacity Resource or an Energy Resource; (iii) provide required machine modeling data; and (iv) in the case of a wind facility, provide a detailed electrical design specification and other data, including layout design.¹⁰ If these requirements are not satisfied, the interconnection request will be deemed terminated and withdrawn.

⁹ For small projects (20 MW or less but greater than 2 MW), PJM requires (i) an initial deposit ranging from \$100 to \$200 for each MW depending on when the project entered the queue, and (ii) a base non-refundable deposit amount ranging from \$1,000 to \$3,000 depending when the project entered the queue. For projects that are 20 MW or less, (i) an initial deposit ranging from \$100 to \$200 for each MW depending on when the project entered the queue, and (ii) a base non-refundable deposit ranging from \$1,000 to \$3,000 depending when the project enters the queue.

¹⁰ PJM Open Access Tariff Section 204.3.

PJM uses due diligence to complete the System Impact Study within 120 days of the date the study commences.

Upon completion of the System Impact Study, PJM, if it determines a Facilities Study is required, shall tender to the project developer a Facilities Study Agreement. In order to remain in the queue, the developer must execute and return the Facilities Study Agreement within 30 days of receipt of the Agreement. The study will document the engineering design work necessary to begin construction of required transmission facilities including estimating the cost of equipment, engineering, procurement and construction work needed to implement the results documented in the System Impact Study. As a deposit, PJM requires \$100,000 or the estimated amount of the Facility Study cost, whichever is greater. PJM also requires a non-refundable deposit of \$50,000 for projects less than or equal to 20 MW but greater than 2 MW, and \$15,000 for projects less than 2 MW. Ultimately, the project developer must pay for all actual study costs associated with the study. PJM will use due diligence to complete the study within 120 days after the execution of the Impact Study Agreement. Additionally, the PJM Tariff allows PJM to include reasonable milestone dates that a generation project must meet in order to retain its queue position.¹¹

Once PJM completes the Facilities Study (or System Impact Study of no Facilities Study is required or is waived by Interconnection Customer) PJM will tender an Interconnection Service Agreement (ISA) to the customer. For the project to remain in the queue, the developer must execute and return the Interconnection Service

¹¹ PJM Tariff at §206.1.

Agreement within 60 days and must submit security¹² in that timeframe as well. PJM also requires the developer to demonstrate that it has (i) entered into a fuel delivery agreement and water agreement, if necessary; (ii) has any necessary rights of way for fuel and water interconnections; (iii) obtained any necessary local, county and state site permits; and (iii) signed a memorandum of understanding for the acquisition of major equipment.¹³ Additionally, PJM may require other reasonable milestone dates in the Interconnection Service Agreement, such as site acquisition, permitting, regulatory certifications (if required), acquisition of any necessary third-party financial commitments, commercial operation, and similar events.¹⁴

PJM will either issue an Interconnection Construction Agreement either at the same time as the ISA or upon PJM's receipt of the executed ISA. The developer has 90 days to return it executed to PJM.

5. Transmission Owner's Role in Interconnection Studies

The Board sought comments on the appropriateness of allowing Transmission Owners to perform engineering studies and to identify necessary transmission upgrades and costs and whether a third party could play a role. Witness, Frank DeSanti also raised concerns about the cost estimates provided by the Transmission Owners.

¹² See PJM Tariff at §212.4. The security basically consists of an amount equivalent to the sum of the (i) estimated costs of the required system facilities and upgrades that the interconnected transmission owner will be responsible for constructing and the (ii) estimated cost of the work that the interconnected transmission owner will be responsible for performing that are scheduled to be completed in the first three months after the work commences. The security is different for projects that are estimated to require three months or less to construct. Additionally, the interconnecting project may defer submitting security for up to 120 days after it signs the Interconnection Service Agreement subject to a deposit and certain conditions.

¹³ PJM Tariff at §212.5.

¹⁴ PJM Tariff at § 212.5.

Additionally, Chairman Solomon asked Mr. Kormos whether other ISO/RTOs use third parties to perform such analysis. Tr. at 41.

PJM's Tariff requires PJM and not the Transmission Owners to perform the interconnection studies. PJM, however, relies on the Transmission Owners to verify PJM's results and to provide cost estimates for the reinforcements necessary to interconnect the project given the Transmission Owner's detailed knowledge of their transmission and distribution system, either of which could be the point of interconnection. It is important to note that both the generators and the Transmission Owners have the ability to discuss or challenge the results.

PJM stakeholders are considering proposals to allow third parties to provide cost estimates for required transmission infrastructure, especially at the facility study stage. Such estimating by third parties necessarily would be per the design specifications of the Transmission Owner and would still require interaction with the Transmission Owner engineers but may provide greater certainty for project developers.

It is PJM's understanding that other ISO/RTOs manage the interconnection process in a similar fashion as PJM, relying on the Transmission Owner to perform some analyses and to produce cost estimates. The ISO/RTOs and Transmission Owners rely, to varying degrees, on contractors to support both analysis and estimating efforts. In some cases, for example in the New York ISO, contractors may be utilized by the project developer at early stages in the interconnection process, but ultimately it is the ISO/RTO that must produce the final analysis and estimates, relying on the support of the Transmission Owners.

Additionally, PJM responds to and provides additional context for the testimony of Fred DeSanti, representing Advanced Metal Separation, at the October 14th hearing. Mr. DeSanti alleged that the Transmission Owner where his project was interconnecting included a 50% contingency fee in the feasibility study, driving up his project's cost. Tr. at 258. While, by their very nature, the study results at the feasibility stage are high-level estimates as detailed design engineering analysis for the upgrades has not been completed, it is important to remember that the interconnecting project will pay only the *actual* costs that are incurred to implement the necessary transmission enhancements. There is a tradeoff between speed in providing study results and identifying every possible necessary enhancement with precision.

B. The Market Has Responded with Greater Amounts of Capacity Offering in Constrained Regions of PJM

The underlying assumption in question number five in the Board's September 27th Order that there has been less market response of new generation in constrained areas, such as New Jersey, is not accurate. Both the most recent RPM Base Residual Auction results posted on PJM's website¹⁵ and in the trend over the next 3 delivery years shows that net incremental capacity offered into the RPM Base Residual Auction has increased in constrained areas. Table 1 shows that for the most recent RPM Base Residual Auction, in MAAC, which includes EMAAC, there were over 1129.3 MW of new incremental generation capacity offered, including new units as compared to 317.5 MW in areas outside of EMAAC and MAAC. The market dynamics were such that not

¹⁵ PJM's 2014/2015 Base Residual Auction Report may be found at <http://www.pjm.com/markets-and-operations/rpm/~media/markets-ops/rpm/rpm-auction-info/20110513-2014-15-base-residual-auction-report.ashx>

all new generation capacity offered cleared. The auction results showed a dramatic increase in demand response participation, which displaced more costly generation resources.

Table 1: New Generation Capacity in the 2014/15 Base Residual Auction

LDA	Offered			Cleared		
	Uprate	New Unit	Total	Uprate	New Unit	Total
EMAAC	82.7	695	777.7	82.7	74.2	156.9
MAAC	255.7	873.6	1129.3	186.3	252.8	439.1
Total RTO	410.5	1036.3	1446.8	341.1	415.5	756.6

*All MW Values are in UCAP Terms

*MAAC includes EMAAC

**RTO includes MAAC

**Does not include Existing Generation located in Duke Zone

Drilling down more specifically into New Jersey data, PJM aggregated the market offer data over the last three Base Residual Auctions (for delivery years 2012/2013, 2013/2014, and 2014/2015) to present the state by state results. There was a net incremental change in generation capacity offered into RPM in New Jersey for those three planning periods, and New Jersey ranks second among the states in the PJM footprint with the largest incremental change in generation capacity offered into RPM during that period. Table 2 below shows the state by state results, with state data aggregated for the three planning periods, of generation capacity offered into RPM.

Table 2: Incremental Generation Capacity Offered into RPM (2012/13, 2013/14, 2014/15)

State	Grand Total
VA	1340.7
NJ	779.6
PA	321.8
IL	125.1
MD	35.6
WV	33.4
KY	8.1
NC	3.2
OH	-162.5
DE	-180.0
IN	-515.0
DC	-788.0

C. The Fixed Resource Requirement Technically May be an Option for New Jersey But There are Implications That Would Need to Be Resolved at the Retail Level

Question number ten in the Board’s September 27th Order asked whether New Jersey should pursue the Fixed Resource Requirement (FRR) alternative to ensure future resource adequacy. Technically, the FRR option may be available to New Jersey, but there may be complexities with its interaction with New Jersey’s retail choice construct and that may make it less desirable. The definition of “FRR Service Area” in the PJM Tariff is “(a) a service territory of an IOU as recognized by state law, rule or order; . . . or (c) a separately identifiable geographic area that is: (i) bound by wholesale metering . . . (ii) for which the FRR entity has or assumes the obligation to provide capacity for all load (including load growth) The underlined text requires the FRR entity to take on the full responsibility of the capacity obligation of all the load within the metered FRR service area. To utilize this option, the Board would need to determine how New Jersey’s retail choice rules would work under that requirement. Retail suppliers may already have capacity procured to meet forward projected load

obligations or may have the ability to procure cheaper resources than the FRR entity may offer under the FRR plan. Additionally, the FRR option requires the FRR entity to commit to the FRR alternative for at least a five-year period which may limit flexibility in selection of resources to meet the requirements of the FRR plan.

Thus, the Board would need to consider whether the retail choice implications and the cost implications are in the interest of New Jersey consumers.

D. The PJM Board of Managers and PJM Staff are Independent of Market Participants

During the hearing on October 14th, a few witnesses were asked about the PJM Board and senior executives in the context of exploring whether the Transmission Owners have undue influence or unfair advantage over the interconnection process under the current FERC approved rules. While the focus of the questions was on the appropriateness of the Transmission Owner's role in the study process and whether incumbent generation owners (many of whom are affiliates of Transmission Owners) have the ability to bottleneck the interconnection process by using their Capacity Injection Rights, observers of the hearing may have been left with the impression that the Transmission Owners have undue influence over PJM, raising into question PJM's independence.

PJM's governance is two tiered. The first tier is the PJM Board of Managers that has as its primary responsibility the obligation to ensure that PJM performs the duties and responsibilities set forth in the PJM Operating Agreement consistent with the safe and reliable operation of a robust, competitive and non-discriminatory electric power

market and the principle that a member or group of members cannot have undue influence over the operation of the PJM Region.¹⁶

Additionally, neither the PJM Board members nor PJM staff may own stock of Member companies or their affiliates. This includes stock of the Transmission Owners. Additionally, the PJM Board of Managers are not permitted to have served any time within the last two years of election to the PJM Board as a director, officer or employee of a Member, affiliate or related party of a Member.

The second governance tier is the Members Committee structure and voting protocol. The Members Committee is comprised of five sectors – End Use Customers, Other Suppliers, Electric Distributors (sometimes referred to as Transmission Dependent Utilities and largely populated by municipal and cooperative utilities), Generation Owners, and Transmission Owners. Note that load interests and asset owning interests are evenly balanced in this sector design. Every Member (including Members whose affiliates may also be Members) has only one vote within its sector. For any vote to pass at the Members Committee, it must be supported by a 2/3 sector-weighted vote, wherein each sector has the same weight.¹⁷ By design, no one stakeholder, or group of likeminded stakeholders, can dominate the stakeholder process.

¹⁶ See Amended and Restated Operating Agreement of PJM Interconnection L.L.C., *Section 7.7(i)*.

¹⁷ See Amended and Restated Operating Agreement of PJM Interconnection L.L.C., *Section 8.4*.

III. Conclusion

PJM submits these comments to both supplement the record with information requested in the Board's September 27th Order and at the hearing on October 14th in the above captioned proceeding and respond to comments raised by other commenters. PJM appreciates the opportunity to participate in this proceeding. PJM shares the Board's goal of improving the interconnection process and is anxious to finalize the proposals discussed above to make a filing with the Federal Energy Regulatory Commission in the next few months to implement those changes in the 2012 Regional Transmission Expansion Planning cycle.

Respectfully submitted,



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PJM Interconnection, LLC

Dated: October 31, 2011