UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PJM Interconnection, L.L.C.	)	Docket No. ER19-562-000

COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM

Pursuant to Rule 211 of the Commission's Rules and Regulations,[1] Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor ("Market Monitor") for PJM Interconnection, L.L.C. ("PJM"),[2] submits these comments on the filing submitted by PJM Interconnection, L.L.C. ("PJM") on December 14, 2018 ("December 14th Filing").

The December 14th Filing is meant to "(i) better align PJM's market efficiency analysis with the realities of generation development in PJM's interconnection queue; and (ii) provide more workable and defined standards as to when generation with an executed Facilities Study Agreement will be included in the models used to analyze the need for market efficiency transmission projects to be included in the regional transmission expansion plan ("RTEP")."

The December 14th Filing proposes revisions that would accomplish this by excluding all generation queue projects with only an executed Facilities Study Agreement (FSA) or an executed Interconnection Service Agreement (ISA) under suspension from the

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1 18 CFR § 385.211 (2018).

2 Capitalized terms used herein and not otherwise defined have the meaning used in the PJM Open Access Transmission Tariff ("OATT"), the PJM Operating Agreement ("OA") or the PJM Reliability Assurance Agreement ("RAA").

model used in the market efficiency analysis. PJM's proposal is based on historical data that show that a smaller proportion of generation projects with only an executed FSA or an executed ISA under suspension will reach commercial operation than for projects with an executed and active ISA. PJM states (at 4), "After four years of experience with PJM's two-year market efficiency planning cycles and changes to the capacity market construct that has incentivized the building of new generation to assure that PJM will exceed its reserve requirement for the distant future, PJM has found that it is over including a significant amount of generation in its market efficiency assumptions."

It appears that PJM's concern is that including some of the identified generation projects makes market efficiency transmission projects look less beneficial. But, that is not a problem that needs to be solved. It is important to recognize that this filing does not concern transmission projects deemed necessary for reliability, but rather, concerns transmission projects that would be justified only on an economic basis.

The inclusion of market efficiency transmission projects in the transmission planning process, in addition to reliability projects, results in direct competition between generation and transmission to address congestion issues in the wholesale power market. But PJM fails to explicitly address this fact either in this filing or in the design of the market efficiency process. Leaving generation projects out of the analysis has an impact on the economics of building transmission over generation. While the market efficiency process and metrics require improvement, for example in the way congestion is measured, the role of the market efficiency process and its impact on competition should be more thoroughly evaluated rather than making piecemeal changes that have a significant impact on the economics of transmission projects. Building transmission under cost of service regulation is already providing a significant competitive advantage to transmission over generation which is built entirely based on market prices and with the concomitant risks. No further changes to favor transmission in the comparison should be implemented prior to a complete review of the market efficiency process and approach.

PJM is correct that, based on history, a significant proportion of generation projects with only an executed FSA and an executed ISA under suspension will not reach commercial operation. But PJM has not explained why they expect these results to continue, particularly under the Capacity Performance capacity market redesign. PJM has also not explained why eliminating all this generation is consistent with an even handed approach to competition between generation and transmission. If uncertainty is to be incorporated in the analysis, it should be incorporated consistently. For example, there is substantial uncertainty about forecast congestion, and forecast congestion is also unlikely to be realized at forecast levels. There is an interaction between constructing generating units, expected fuel costs and expected congestion. But PJM does not discount forecast congestion in the same way that PJM proposes to discount generation in the queue. There is substantial uncertainty in the cost of constructing transmission projects. But PJM does not propose to address this uncertainty. Eliminating all generation with an executed FSA and an executed ISA under suspension in the market efficiency analysis assumptions is inappropriate and will not better align PJM's market efficiency analysis with the realities of generation development in PJM's interconnection queue and will not improve the terms of competition between generation and transmission.

PJM states (at 2), "Assumptions regarding anticipated generation and demand response are critical to and included in PJM's market efficiency analyses." PJM notes (at 2) that assumptions about anticipated generation and demand "contribute to the determination of whether or not market efficiency transmission projects are beneficial." If it is critical to include anticipated generation in the market efficiency analysis, simply excluding all generation with an executed FSA and an executed ISA under suspension cannot produce a more accurate result. The exclusion of generation in the analysis may make the transmission projects look more economic and generation projects less economic. In such cases, the transmission projects will be more likely to be completed and will make the generating units less economic and thus contribute to the probability that the units will not be completed.

PJM states (at 2), "PJM has found there is no easy answer to the question how much generation in the interconnection queue should be included in the assumptions used for the market efficiency analysis." That there is no easy answer does not mean the analysis cannot improve. Given that the market efficiency approach is not identifying transmission projects needed for reliability but is defining whether a transmission project should be permitted to displace generation, there is no reason to underestimate the level of generation that will be built. If it wishes to improve the analysis, PJM should refine the metric used to determine which units to include in the market efficiency analysis rather than merely eliminating all queue projects with an executed FSA or an executed ISA under suspension. The goal should be to eliminate only units that have an extremely low probability of completion. The goal should be to let generation and transmission compete on a more level basis. In addition, PJM should address all the other uncertainties in the evaluation process, including expected congestion, the costs of the transmission project and expected load.

Such an analysis may not be an easy answer, but it would be a systematic, objective approach that would be an improvement over simply excluding future generation.

The Market Monitor respectfully requests that the Commission afford due consideration to these comments as it resolves the issues raised in this proceeding.

Respectfully submitted,

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Dated: January 11, 2019

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 Eagleville, Pennsylvania,
this 11th day of January, 2019.

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