

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

PJM Interconnection, L.L.C.	)	Docket No. ER20-83-000
	)	
	)	

**COMMENTS OF THE INDEPENDENT MARKET MONITOR FOR PJM**

Pursuant to Rule 211 of the Commission’s Rules and Regulations,<sup>1</sup> Monitoring Analytics, LLC, acting in its capacity as the Independent Market Monitor (“Market Monitor”) for PJM Interconnection, L.L.C. (“PJM”),<sup>2</sup> submits these comments responding to the filing submitted by PJM Interconnection, L.L.C. (“PJM”) on October 10, 2018 (“October 10<sup>th</sup> Filing”). The October 10<sup>th</sup> Filing was submitted in compliance with Opinion No. 566, which resolved the complaint filed by TranSource, LLC (“TranSource”) against PJM in connection with the cost of upgrades for competitive transmission projects that would be compensated through Incremental Auction Revenue Rights (“IARRs”).<sup>3</sup>

The Market Monitor does not oppose the October 10<sup>th</sup> Filing. However, based on the Market Monitor’s experience over the course of this proceeding, it would be better to eliminate compensation of competitive transmission projects through IARRs than to codify the process. The process serves no useful purpose because it is unlikely to identify viable projects. Including the process in the tariff creates confusion and may impede the development of better alternatives. More fundamentally, using IARRs to compensate

---

<sup>1</sup> 18 CFR § 385.211 (2019).

<sup>2</sup> 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”).

<sup>3</sup> *TranSource, LLC v. PJM*, 168 FERC ¶ 61,119 (2019) (“Opinion No. 566”).

competitive investment interferes with efficient and equitable compensation to Auction Revenue Rights (“ARR”) holders.

## I. COMMENTS

### A. The Market Monitor Does Not Oppose Acceptance of the Compliance Filing.

The October 10<sup>th</sup> Filing reasonably complies with the Commission’s directive in Opinion No. 566 that PJM include a more detailed description of the practices it uses when conducting System Impact Studies for requests under OATT Attachment EE for compensation for transmission projects through IARR awards.<sup>4</sup> The October 10<sup>th</sup> Filing includes proposed revisions that are consistent, at a high level, with the process outlined in the PJM and IMM partial settlement agreement.<sup>5</sup> The Market Monitor is satisfied that the agreed description, developed in a collaborative process between PJM and the Market Monitor, resolves, going forward, the transparency concerns that the Market Monitor raised in its pleadings filed in this docket.<sup>6</sup> The Market Monitor does not oppose acceptance of PJM’s compliance filing insofar as it clarifies the process going forward. But including a more transparent process in the OA does not address the flaws identified with PJM’s market design in the course of this proceeding. It is effectively impossible to qualify for a

---

<sup>4</sup> Opinion No. 566 at P 83 (“(1) a definition of the models used to evaluate IARR requests, including descriptions of the IARR market model and planning model; (2) a description of how the market limits or operative constraints in the market model are determined; and (3) a detailed explanation of how “simultaneous feasibility” is determined for IARR requests, including a description of how PJM conducts the “simultaneous feasibility test” and determines the “incremental capability required” for IARR requests to be granted, taking into account financial rights and physical constraints of the system.”).

<sup>5</sup> See Joint Filing of PJM Interconnection, L.L.C. and the Independent Market Monitor for PJM for PJM Giving Notice of Partial Settlement, EL15-79-000 (June 6, 2017).

<sup>6</sup> See, e.g., Motion for Investigative Process of the Independent Market Monitor for PJM, EL15-79-000 (August 6, 2015).

legitimate IARR funded upgrade based on the required process for allocating ARR. The IARR process itself is inconsistent with and violates Order No. 681.

**B. The Compensation of Competitive Transmission Investment through IARRs Should Be Eliminated from the PJM Market Design.**

Since 2018, the Market Monitor has recommended that the direct customer request approach for creating and allocating IARR should be eliminated from PJM's tariff.<sup>7</sup> Under the analysis that PJM performs to evaluate the upgrades needed to award a customer's requested IARRs, it is effectively impossible that a viable project could be identified. The increased transparency of PJM's process will make this fact more obvious to a prospective IARR customer in any independent analysis that they perform when making a study request to PJM.

IARRs are intended to be ARRs made available by physical transmission system upgrades as a result of customer funded transmission projects or as a result of customer funded generation interconnection upgrades. But given the process and procedures for determining the upgrades needed to support an IARR request, it is effectively impossible that a viable project could be identified. The IARR process, therefore, serves no useful purpose.

The direct customer request approach for creating and allocating IARRs should be eliminated from PJM's tariff. In order for a transmission project to result in IARRs, the project must create simultaneously feasible incremental market flow capability in PJM's ARR market model, over and above all system capability being used by existing allocated ARRs and/or would be used by granting any prorated outstanding ARR requests, in the ARR market model. The market model, which includes flows from all system capability being used by existing allocated ARRs and/or would be used by granting any prorated

---

<sup>7</sup> See, e.g., 2018 State of the Market Report for PJM, Vol. I (March 14, 2019) at 14 ("The MMU recommends that the direct customer request approach for creating and allocating IARR should be eliminated from PJM's tariff.").

outstanding ARR requests, has little if any residual capacity available and a significant number of binding, limiting constraints that would need to be relieved in order to make IARRs available. Given the current allocation of existing ARRs relative to system capability, the upgrades needed to produce IARRs under this approach are prohibitively expensive and impractical. While PJM's process is now reasonably transparent, such transparency reveals that identifying a viable project is effectively impossible and makes clear that much of the information required to determine whether a particular IARR project is economically viable, including the actual nature and cost of any required upgrades, will not be made available to the customer unless the customer pursues a Facilities Study.

Maintaining a nonviable IARR process will continue to create unnecessary confusion and adds nothing to the development of competitive transmission.

Most importantly, PJM's process for using IARR requests to compensate competitive transmission projects is fundamentally flawed and cannot be made consistent with the requirements of Order No. 681.<sup>8</sup> The problem is inherent to using IARRs as a mechanism for compensation for transmission projects and guaranteeing the IARRs created by the process.

Opinion No. 566 (at P 208) notes that Guideline 3 of Order No. 681 requires that "long-term firm transmission rights made feasible by transmission upgrades or expansions must be available upon request to the party that pays for such upgrades or expansions." In Order No. 681 (at P 215), the Commission clarified that parties that fund such upgrades/expansions "are not entitled to obtain transmission rights to existing transmission capacity held by others." In order to grant incremental long term rights without taking rights transmission rights held by others, in PJM's approach, Opinion No. 566 states (at P 208) that an IARR granted by directly funded upgrades in PJM's process must be

---

<sup>8</sup> *Long-Term Firm Transmission Rights in Organized Electricity Markets*, Order No. 681, 116 FERC ¶61,077 (2006) ("Order No. 681"), *order on reh'g*, Order No. 618-A, 117 FERC ¶ 61,201 (2006), *order on reh'g*, Order No. 681-A, 126 FERC ¶ 61,254 (2009).

simultaneously feasible with existing, granted rights of other market participants. Opinion No. 566 states (at P 208) that the granting of rights for such an upgrade must be on the basis of simultaneous feasibility “so as not to create inequities among market participants.”

Any and all IARRs awarded by the process are treated as Stage 1A rights in any subsequent annual allocation of ARR. Granting Stage 1A status to IARRs represents preferential treatment of IARR rights relative to the set of ARR rights belonging to load. Only a subset of the ARR rights paid for by load and allocated to load are treated as Stage 1A rights. Stage 1A rights are given first and absolute priority in PJM’s annual allocation process, over and above later stage requests to claim existing system congestion rights by PJM load. This means that if the annual market model used to allocate existing ARR rights in a given year cannot simultaneously support Stage 1A ARR requests (e.g., expected outages), the system model is modified so as to make the Stage 1A ARR requests feasible. When this occurs, the result is a model that will, absent any other adjustments, result in an over allocation of congestion rights relative to expected congestion.

An over allocated congestion rights market will have FTR target allocations that exceed expected congestion. To avoid having FTR target allocations exceed expected congestion, PJM reduces annual market model system capability available to non-Stage 1A rights through selective line outages and line rating reductions. The resulting market model artificially supports all the Stage 1A ARR requests and artificially reduces the amount of remaining later tier ARR requests from other rights holders. This means that the Stage 1A ARRs, including IARRs, are sustained at the expense of other preexisting congestion rights, and for IARRs in violation of Order No. 681. In this circumstance, Stage 1A ARRs, including IARRs, and associated FTRs will collect more FTR auction revenue and/or more congestion dollars than they should, at the expense of other congestion rights holders, again in violation of Order No. 681.

The network customer with ARR rights pays for network service and access to the entire network. At the same time, the distinctions among the portion of system that can be granted via the Stage 1A ARR rights, Stage 1B ARR rights and Stage 2 rights of a network

customer are arbitrary, based on lowest peak load MW (for total source to sink MW that can be requested as Stage 1A rights) and maximum peak load MW (for the total source to sink MW that can be requested as Stage 1B and Stage 2 rights) of the customer. At the same time, all IARR rights granted from a project are treated as Stage 1A. The disparate treatment means that a network customer can pay the same network service fee every year, but have a different set of feasible ARRs to offset their congestion every year, while a project owner with an IARR, paying the same cost for its project every year, gets the same ARRs to offset their congestion every year. The consistency of the IARR right, despite its inconsistency with actual system capability, is granted at the expense of network service customer rights, in violation of Order No. 681, despite the fact that the IARR was intended to be simultaneously feasible with all existing rights.

The Market Monitor recommends the elimination of IARRs. The Market Monitor recommends that the Commission investigate this issue under section 206 of the Federal Power Act and that the Commission take appropriate actions to protect the public interest in an efficient and competitive market design.<sup>9</sup>

## II. CONCLUSION

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,



---

Jeffrey W. Mayes

General Counsel  
Monitoring Analytics, LLC

Joseph E. Bowring  
Independent Market Monitor for PJM  
President  
Monitoring Analytics, LLC

---

<sup>9</sup> 16 U.S.C. § 824e.

2621 Van Buren Avenue, Suite 160  
Eagleville, Pennsylvania 19403  
(610) 271-8051  
*joseph.bowring@monitoringanalytics.com*

Howard J. Haas  
Chief Economist  
Monitoring Analytics, LLC  
2621 Van Buren Avenue, Suite 160  
Eagleville, Pennsylvania 19403  
(610) 271-8054  
*howard.haas@monitoringanalytics.com*

2621 Van Buren Avenue, Suite 160  
Eagleville, Pennsylvania 19403  
(610) 271-8053  
*jeffrey.mayes@monitoringanalytics.com*

Seth A. Hayik  
Senior Analyst  
Monitoring Analytics, LLC  
2621 Van Buren Avenue, Suite 160  
Eagleville, Pennsylvania 19403  
(610) 271-8050  
*seth.hayik@monitoringanalytics.com*

Dated: November 7, 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 7<sup>th</sup> day of November, 2019.



---

Jeffrey W. Mayes

General Counsel

Monitoring Analytics, LLC

2621 Van Buren Avenue, Suite 160

Eagleville, Pennsylvania 19403

(610) 271-8053

*jeffrey.mayes@monitoringanalytics.com*