

I. COMMENTS

A. PJM's Proposed Queue Reforms Will Improve Administration of The Generation Interconnection Process.

PJM proposes a number of reforms to its queue process, including (i) six-month queue cycles, (ii) "sliding" queues for projects materially modifying their size, (iii) an "alternate queue" for small projects (≤ 20 MW) found to have low system impact, (iv) clarified timeframes for transferring Capacity Interconnection Rights from a deactivated unit, (v) reduced suspension rights if suspension negatively impacts the timing or cost of a subsequent project; (vi) modified deposits for small projects (>2 MW, ≤ 20 MW), and (vii) clarified provisions concerning the submission of System Impact Study data. Generally, these reforms are aimed at reducing or streamlining studies for projects less likely to have a significant impact on the system and reducing the need for frequent restudies. As PJM explains (at 6–7), these reforms would, if approved, "ensure the accuracy of the model against which the queue is studied" and provide "more certainty and meaningful results."

The Market Monitor supports these proposals because, by streamlining the process and improving its transparency, these reforms tend to reduce the extent to which the generation interconnection process prevents or delays the entry of competitive new generation projects.

B. Additional Reforms to The Generation Interconnection Process Are Needed to Address Barriers to Entry.

Though welcome, the proposed reforms are not enough. Even with these reforms, elements of the generation interconnection process will continue to operate as a barrier to new entry. Addressing these issues is increasingly urgent, because inadequate

interconnection rules and practices are inconsistent with open access and competition, and significant new entry likely will be required as a result of the retirements that will occur over the next several years.

The level and variability of expected interconnection costs are an important consideration in siting a new plant. It is therefore essential to ensure that the level and potential variability in such costs are established through a fair, transparent and non discriminatory process.

The tariff assigns to PJM responsibility for the preparation of all studies of New Service Requests required by the Tariff.”³ It also provides that PJM “obtain service or expertise” from “consultants,” including the transmission owners.⁴ This has meant, in practice, PJM’s reliance on transmission owners to determine interconnection costs.⁵ PJM should have an independent capability and a clear mandate to calculate interconnection costs. Reasonable safeguards should also be established to protect the interests of transmission owners.

The costs of interconnection are heavily influenced by prior projects in the queue. At the end of 2011, 90,275 MW were in the queue for construction through 2018 versus

³ OATT § 210.

⁴ *Id.*

⁵ See New Jersey Board of Public Utilities, *In the Matter of the Board’s Investigation of Capacity Procurement and Transmission Planning*, Docket No. EO11050309, Hearing Transcript (June 17, 2011) at 43–45 (PJM testified, “The actual engineering work for the upgrades required is done by the transmission [provider], and ultimately the cost estimates are done by the transmission owners.”) (“BPU Hearing Transcript”).

approximately 180,000 MW current installed capacity in PJM.⁶ A substantial number of these projects are not likely to be built. PJM estimates as many as 80–90 percent of the projects in the queue will not be built.⁷ In some cases, a sponsor may include mutually exclusive projects to preserve its options. PJM treats projects with a prior position in the queue as if they existed when PJM studies later projects, potentially increasing such projects' interconnection costs. Rules are needed to ensure that projects that are ready to begin construction are not effectively blocked by projects that are not ready and are unlikely ever to be ready.⁸

Rules that preserve the Capacity Injection Rights (CIRs) associated with retired, deactivated units impose significant costs on new entrants. Currently, CIRs persist for a year if unused, and they can be further extended at no cost if assigned to a new project in the interconnection queue at the same point of interconnection.⁹ Reforms that require the holders of CIRs to use or lose them, and/or impose costs to holding or transferring them, could make new entry appropriately more attractive. The economic and policy rationale for extending CIRs for inactive units is not clear. Incumbent providers receive a significant advantage simply by imposing on new entrants the entire cost of system upgrades needed to accommodate new entrants. The policy question of whether CIRs should persist after the retirement of a unit should be addressed. Even if the policy treatment of such CIRs remains

⁶ 2011 State of the Market Report for PJM at 286.

⁷ BPU Hearing Transcript at 54–55.

⁸ *See Id.* at 55–56.

⁹ OATT § 230.3.3.

unchanged, the rules need to ensure that incumbents cannot exploit control of CIRs to block or postpone entry of competitors.

A review of PJM's interconnection procedures may identify other reforms that would enhance competition and ensure appropriate costs for new entry.

Conditioning Commission approval of PJM's proposed reforms on a requirement that PJM study and propose additional modifications to the queue process by a date certain may also elicit a consensus proposal to address this problem.

II. CONCLUSION

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

Respectfully submitted,



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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 21st day of March, 2012.



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